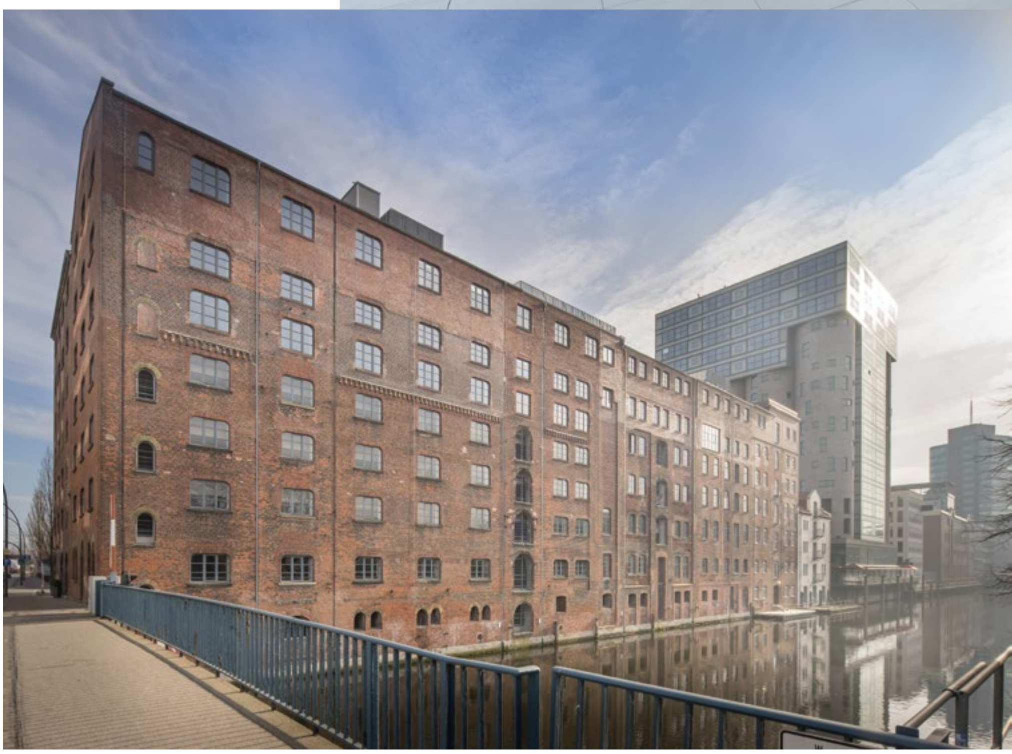
A diversified approach



CLS

A diversified approach

We own and actively manage properties in well-connected locations that satisfy the needs of our customers. Our knowledge of the UK, German and French property markets informs our proactive investment strategy. By understanding customer's needs and market dynamics, we actively add value for our occupiers and shareholders.

Statutory and alternative performance measures

Throughout the strategic report we use a range of financial and non-financial measures to assess our performance in accordance with European Public Real Estate Association (EPRA) measures. EPRA is a recognised body in the property industry which is involved in the formulation of accounting metrics and sustainability reporting, which give the European listed real estate sector greater transparency and consistency. These standards also provide visibility and comparability to industry stakeholders in addition to being appreciated by the investment community. Management uses these measures to monitor the Group's financial performance alongside International Financial Reporting Standards (IFRS) measures because they help illustrate the underlying financial performance and position of the Group. We have defined and explained each of these EPRA measures in the glossary of terms on pages 133 and 134. The EPRA measurements should be considered in addition to measures of financial performance, financial position or cash flows reported in accordance with IFRS.

Our business at a glance

Solid, stable and diversified portfolio

For more information about our properties see our website www.clsholdings.com

Contracted rent
£109.6m

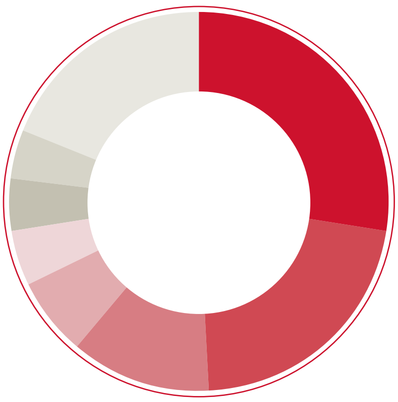
No. of properties
122

Property value
£1.9bn

No. of tenants
689

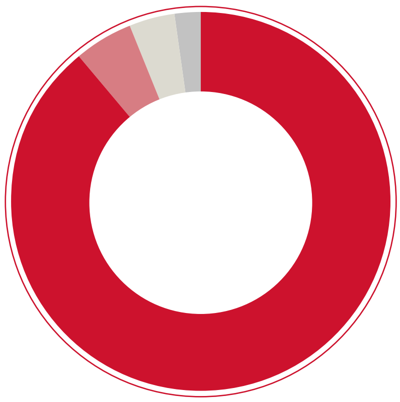
Total floor space
6.9m sq ft

RENT BY SECTOR



- Government – 27.5%
- Business services – 21.8%
- Manufacturing – 12.0%
- IT – 6.5%
- Student lets – 4.7%
- Finance – 4.6%
- Retail – 4.1%
- Other – 18.8%

PROPERTY USE BY REVENUE

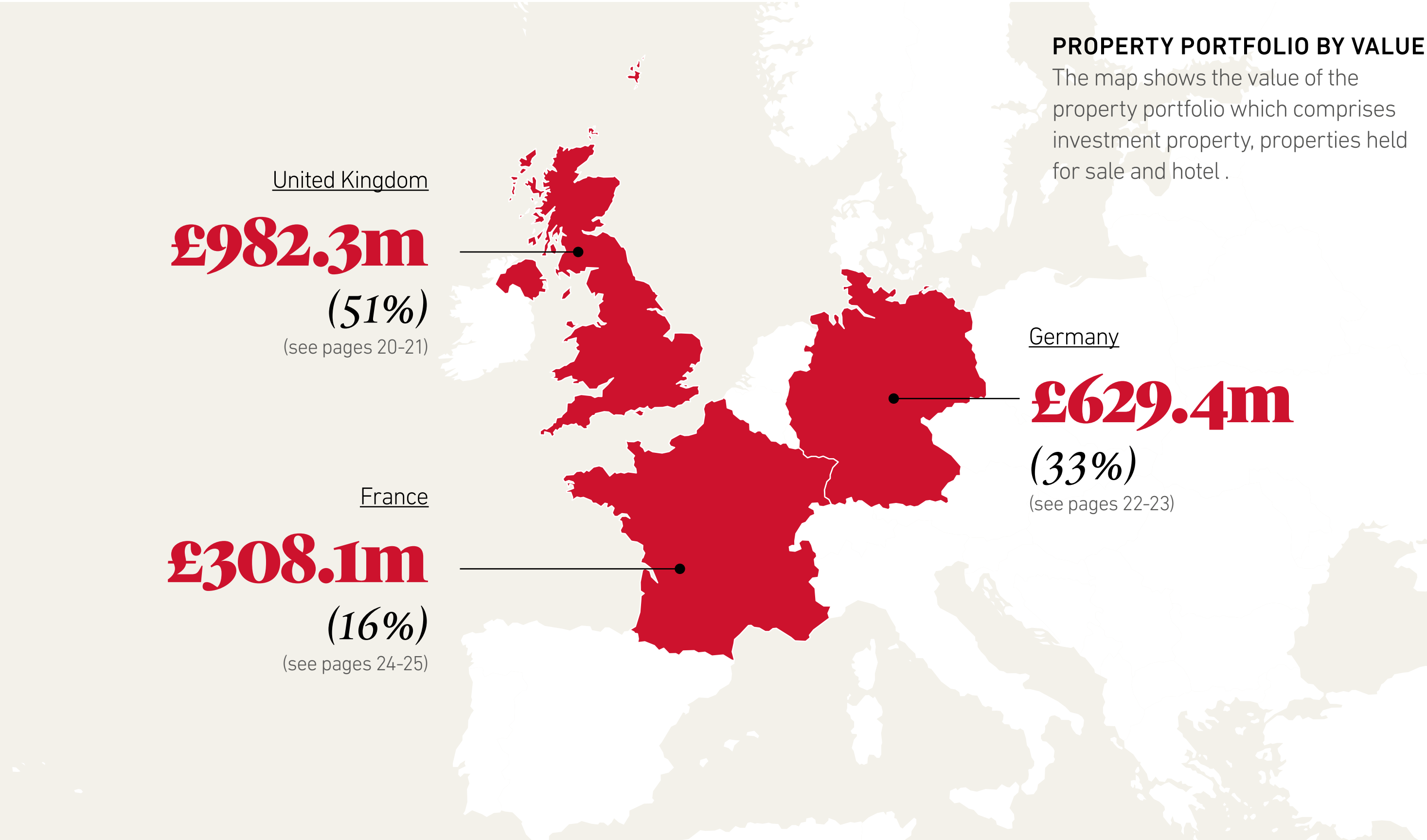


- Office – 89%
- Student – 5%
- Hotel – 4%
- Retail – 2%

Front cover images – Harman House, Uxbridge; Fleethaus and, Silo, Hamburg

PROPERTY PORTFOLIO BY VALUE

The map shows the value of the property portfolio which comprises investment property, properties held for sale and hotel .



RENTAL DATA

	Rental income for the year £m	Net rental income for the year £m	Lettable space sqm	Contracted rent at year end £m	ERV at year end £m	Contracted rent subject to indexation £m	Vacancy rate at year end
United Kingdom	56.7	56.6	240,988	57.3	61.8	16.9	4.0%
Germany	31.1	30.8	300,699	35.3	38.9	19.5	4.2%
France	15.2	15.5	82,984	17.0	17.3	17.0	2.3%
Total Portfolio	103.0	102.9	624,671	109.6	118.0	53.4	3.8%

VALUATION DATA

		Valuation movement in the year						
	Market value of property £m	Underlying £m	Foreign exchange £m	EPRA net initial yield	EPRA topped up net initial yield	Reversion	Over-rented	True equivalent yield
United Kingdom	954.9	4.3	-	5.2%	5.6%	8.3%	4.4%	6.0%
Germany	629.4	52.5	7.8	5.1%	5.4%	9.1%	3.3%	5.7%
France	308.1	11.0	3.8	4.7%	5.3%	2.7%	3.8%	5.2%
Total Portfolio	1,892.4	67.8	11.6	5.1%	5.5%	7.7%	4.0%	

LEASE DATA

	Average lease length		Passing rent of leases expiring in:				ERV of leases expiring in:			
	To break years	To expiry years	Year 1 £m	Year 2 £m	Years 3 to 5 £m	After 5 years £m	Year 1 £m	Year 2 £m	Years 3 to 5 £m	After 5 years £m
United Kingdom	4.3	5.4	3.1	5.5	12.9	33.0	3.2	5.7	13.4	34.4
Germany	4.8	4.9	5.8	5.4	13.6	10.6	6.3	5.6	14.6	10.9
France	2.6	5.4	1.6	0.7	4.7	10.0	1.6	0.7	4.5	10.0
Total Portfolio	4.2	5.3	10.5	11.6	31.2	53.6	11.1	12.0	32.5	55.3

Note: The above tables comprise data of the investment properties and properties held for sale.

Highlights

Delivering robust and disciplined growth

FINANCIAL HIGHLIGHTS[1]

EPRA NAV[2] 309.8p

+8.5%

(2017: 285.6p, see note 12)

Basic NAV 275.5p

+9.3%

(2017: 252.0p, see note 12)

Valuation uplift[3]

+3.7%

(2017: +5.8%)

EPRA eps 13.1p

+4.0%

(2017: 12.6p, see note 11)

Basic eps 30.5p

-21.4%

(2017: 38.7p, see note 11)

Full year's dividend 6.9p

+8.7%

(2017: 6.35p, see note 26)

Profit after tax[4] £132.8m

-15.4%

(2017: £157.0m)

Cost of debt lowered further to

2.43%

(2017: 2.51%)

1 2017 comparatives restated to reflect reclassification of discontinued operations (note 24)
2 Key Performance Indicator
3 Investment properties, properties held for sale and hotel
4 From continuing operations

OPERATIONAL HIGHLIGHTS

ACTIVE ASSET MANAGEMENT
176 asset management deals completed securing £16.2m of annual rent at 2.2% above ERV

HIGH OCCUPANCY LEVELS
Vacancy rate reduced to 3.8% (2017: 5.8%)

RENTAL INCOME ENHANCEMENT
Rental income increased by 9.9% to £103.0m (2017: £93.7m)

REPOSITIONING THE PORTFOLIO
11 properties sold for £48.5m
2 properties acquired for £70.0m

ASSET ENHANCEMENT
2 developments completed:
Ateliers Victoires (Paris) 21,500 sq ft 16
Tinworth Street (SE11) 9,181 sq ft
1 planning permission gained:
Quayside Lodge (SW6) 160,000 sq ft
Total capital expenditure: £18.0m

FINANCING INITIATIVES
Financed £137.7m at 2.16% pa for 5.8 years
Redeemed £65m 5.5% bond early
Repaid £158.6m of loans in total which had been costing 3.26% p.a.

BALANCE SHEET LOAN TO VALUE
Maintained at 36.7% (2017: 36.9%)

SUSTAINABILITY HIGHLIGHTS

Reduction in CO_2 emissions

15.9%

(2017: 9.3%)

Recycling

71%

(2017: 70%)

Renewable energy

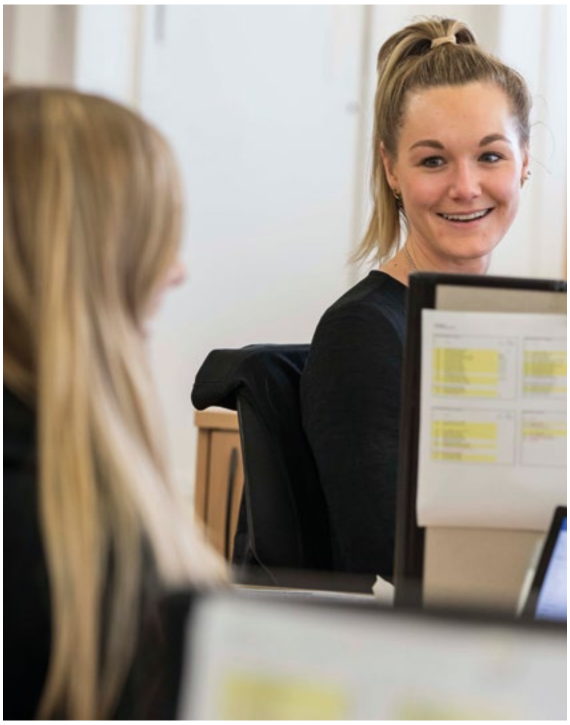
91%

(2017: 96%)

Contents

Strategic report

Corporate governance



Financial statements

Spring Mews student accommodation, London

In this section:

Strategic report

Chairman's statement

Strength in diversity

Henry Klotz,
Executive Chairman

PERFORMANCE

I am delighted to be able to report another robust set of results which once again are an endorsement of CLS's strategy of focusing on geographical diversity as a long-term investor in the three largest economies in Europe: the UK, Germany and France. During the year, EPRA NAV rose by 8.5% to 309.8 pence per share (31 December 2017: 285.6 pence).

As a result of this diversity, we are ready to face the prospect of Brexit-related macro uncertainty with great confidence in the underlying strength of the business.

PROPERTY PORTFOLIO

In 2018, our property portfolio rose in value by 3.7% in local currencies, with an outstanding performance in Germany which saw an uplift of 9.3%. At 31 December 2018, the portfolio was valued at just over £1.9 billion, of which 51% was in the UK, 33% in Germany and 16% in France. For many years, we have benefited from our established presence in these markets. In each we operate the same core strategy: a focus on office buildings in high quality, predominantly non-prime locations in larger cities and managed by our own staff. Having our in-house management well-established in each local market remains key to our success as it allows us to establish strong relationships with our customers, gain a deep knowledge of their changing requirements, and ultimately improve the service we provide, to our mutual benefit. It is also hugely important for new business opportunities to be fully integrated in the local property networks.

In 2018, we invested £70.0 million in acquisitions, primarily in London, where our confidence in the longer-term future provided opportunities to acquire at attractive prices.

CULTURE

We continue to promote an open, entrepreneurial culture for our workforce, with an efficient decision-making structure which engenders responsibility and enables a hands-on operating process.

We enhance the communication within the organisation to engage our employees; in 2018, we introduced an in-house social media initiative. In order to attract and retain high-quality talent, we have to understand and respect the different business cultures in which we operate and to dovetail our Group culture with that of local markets.

The high levels of engagement within our team, levels of professionalism and expert knowledge all make a tangible contribution to the strength of our organisation. On behalf of the Board, I would like to thank all of our employees for their continued hard work and commitment to the success of CLS.

SUSTAINABILITY

Our aim is to be a leading sustainable business, and in 2018 we have taken every opportunity to invest in renewable technology, such as additional photovoltaic panels and thermodynamic heat pumps. Our committed in-house team is dedicated to environmental issues across all our markets both within CLS and in our local communities, and we are working hard to implement best practice in all areas. Our corporate, social and environmental responsibility report contains details of our work on sustainability and can be found on page 30.

SHAREHOLDER ENGAGEMENT

Around 60% of the shares in the Company are held by representatives of the Board, and by engaging with external shareholders we typically are able to meet at least once a year with around 90% of our shareholder base, and others wishing to join it. This is important; we meet most shareholders every six months, and we consult with them on an ad hoc basis on specific topics, such as directors' remuneration. In this way we are able to run the business with a mindset very much in step with shareholders' views.

BOARD CHANGES

John Whiteley, our Chief Financial Officer, who has been with us for almost ten years, has chosen to retire later this year and the process to find his successor is well advanced. I would like to thank John for his hard work and contribution to CLS over the years and to wish him well in his new status as a young pensioner.

Malcolm Cooper, who joined the Board in May 2007 and is our Senior Independent Director and Chairman of the Audit Committee, has expressed a wish to stand down in 2019, but to continue in post to assist in the handover to his successor and to the new CFO.

As Chairman, it is one of my primary responsibilities to ensure that the Board is effective in running the Company, and that succession plans are in place for all directors. The composition of our Board does not currently comply with the provisions of the Code in that it does not have a majority of independent non-executive directors; indeed, this has always been the case, but this is exacerbated when non-executives have been with us for more than nine years. A key focus of mine in 2018 has been to hold discussions with the Board with a view to refreshing the composition of the non-executives in the short to medium term and broadening the experience they bring to the Board, and I expect to be able to announce progress on this in due course.

DIVIDEND

In line with our strategy that the dividend should be progressive and well-covered by EPRA earnings, the Board is pleased to propose a final dividend for 2018 of 4.7 pence per share, making the total for the year of 6.9 pence, being 1.9 times covered by EPRA earnings and an increase over last year of 8.7%.

OUTLOOK

In the UK there has been a trend for new market entrants in the property sector to provide very flexible leases although, with a question remaining over the sustainability of their business models, this may now be slowing down. We embrace these changes, which have had a positive impact on the way in which people work due to the way some UK offices are designed. For many years, the tradition in Germany and France has been to have more flexible leases than in the UK, but our tenant base in the UK has long enjoyed such flexibility, and we expect this to continue.

The key for us is to have a close relationship to our customers in order to be well informed about and understand the evolving requirements for their businesses. The main risk that I see is if the demand for our premises in the UK were to decrease significantly, but as we have a strong focus on keeping the vacancy below 5%, and 43% of our UK rental income is derived from the UK Government, I believe the risk is manageable.

The economic and political environment is as challenging to interpret as I have known for some time. The impact of Brexit on our business is, of course, difficult to predict, but the spread of our operations across the three strongest European economies places CLS at a competitive advantage.

We shall continue to follow our medium-term strategy and long-term vision, whilst constantly challenging both to ensure they remain robust. Our balance sheet is strong, our business well-placed, and we remain focused on continuing to deliver value to our shareholders.

Henry Klotz
Executive Chairman

Business model and strategy

Realising value and reinvesting for the future

GROWTH THROUGH REINVESTMENT

We acquire the right properties...

...we secure the right finance...

WE ACQUIRE THE RIGHT PROPERTIES

- We invest in commercial real estate in the UK, Germany and France.
- 95% of our properties are offices.
- We look to acquire properties in high quality, non-prime locations with good transport links and located in key European cities.
- Many of our properties are multi-let to a wide variety of occupiers, giving us the opportunity to add value whilst spreading our risk.
- The cost of buying investment properties is met partly from the Group's liquid resources and partly from external financing. Liquid resources are supplemented by disposal proceeds from selling assets which present limited further opportunities to add value.
- We have the ability to move quickly due to our strong balance sheet.
- Our in-house sustainability programme is focus on mitigating our impact on climate change and continually improving our properties.

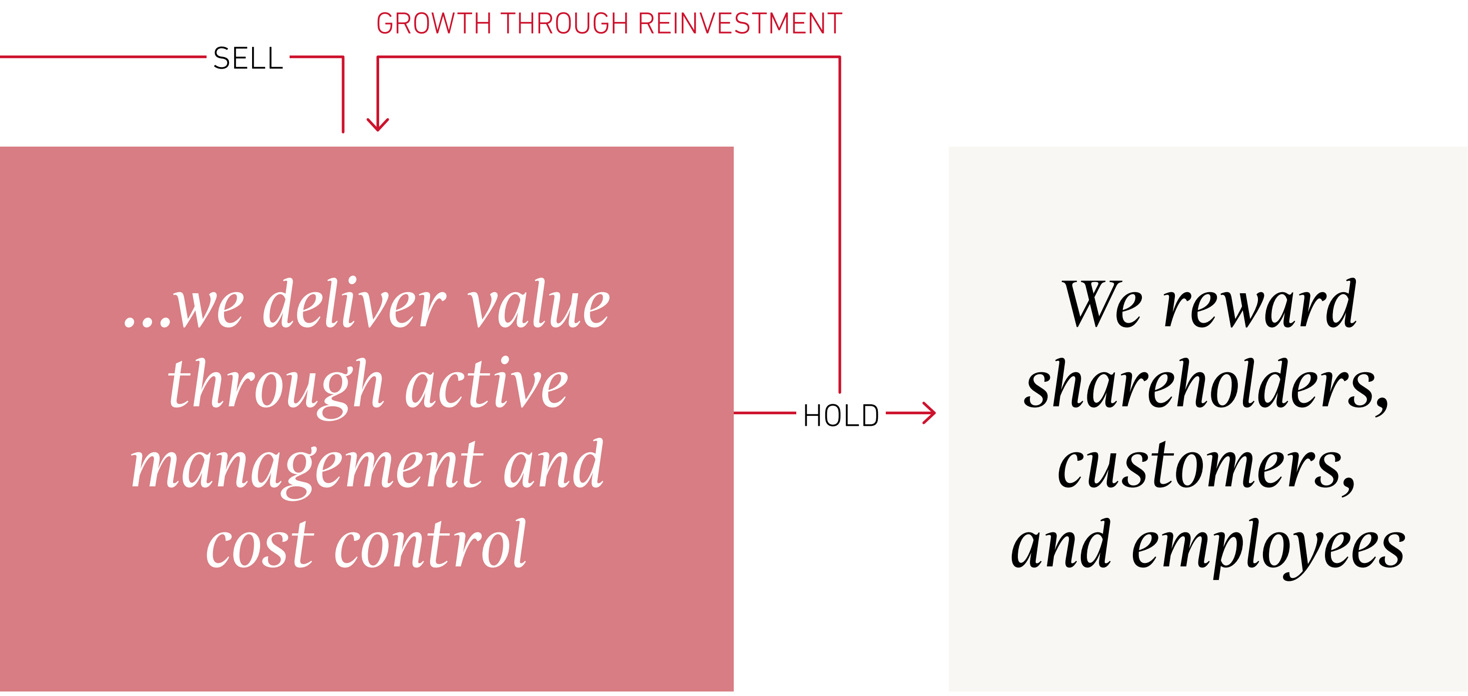
For more information on acquiring the right properties see **pages 10-11**

WE SECURE THE RIGHT FINANCE

- Most of our properties are held in their own SPV, and are financed with bank loans borrowed by the SPV on a non-recourse basis to the rest of the Group.
- We have the flexibility to borrow at fixed or floating rates of interest and by borrowing against each asset, we are able to use a level of gearing suitable to the specific property.
- Where properties are more suited to being financed together, such as on the acquisition of a larger portfolio, we finance them under one loan, often with the flexibility to withdraw properties from charge and to substitute others.
- Our bank borrowing is typically for five or seven years, and as most of our debt is obtained from local banks, we have active relationships with 26 lenders around Europe, which spreads our risk.
- In everything we do to secure the right finance, we always generate responsible profit through creating sustainable long-term decisions with the environment in mind.

For more information on securing finance see **pages 10-11**

Our corporate objective is to create sustainable, long-term value through owning and actively managing high-yielding office properties in key European cities



WE DELIVER VALUE THROUGH ACTIVE MANAGEMENT AND COST CONTROL

- The key to active management is to perform it in-house, because, by using our own employees, we harness greater motivation, response times and attention to detail than if tasks were to be outsourced.
- In-house management includes asset management (leasing), property management (refurbishments), facilities management (day-to-day maintenance), development management, tenant billing and debt collection, and purchase ledger and service charge management.
- By performing all of these functions in-house we control costs through efficient working, and we maintain our revenue stream through providing a first-rate service to our customers.
- This approach allows us to develop and embed environmental behaviours across our managed landscape. This supports our impact on climate change and gives our shareholders confidence in our day-to-day management.

For more information on active management see **pages 10-11**

REWARDING SHAREHOLDERS, CUSTOMERS, AND EMPLOYEES

- Approximately half of our EPRA earnings are distributed to shareholders. This represents £28.1 million of the £53.5 million of EPRA earnings in 2018. The balance is reinvested in the business, increasing the size of the Company. In this way shareholders can be rewarded partly in cash and partly in the capital appreciation of their shares. As we are not a REIT, we are not restricted in the amount we are required to distribute to shareholders, which benefits the business in the longer term.
- Our tenants are our customers. They benefit from a landlord who understands their needs and who provides cost-effective accommodation through investing its profits back into its business.
- We reward employees for their work and their loyalty, through bonus schemes which reflect the success of the business, which aligns their interests with our shareholders and our customers.

Strategy at a glance

Creating sustainable, long-term value

LINK TO BUSINESS MODEL	STRATEGY	STRATEGY IMPLEMENTATION	KEY PERFORMANCE INDICATORS (see details on pages 16-17)
WE ACQUIRE THE RIGHT PROPERTIES	Invest in high-yielding properties, predominantly offices, with a focus on cash returns	— We target modern, high quality, well-let properties in good non-prime locations in larger European cities.	TSR – ABSOLUTE TSR – RELATIVE TOTAL ACCOUNTING RETURN
	Diversify market risk by investing in geographical area with differing characteristics	— We invest in the UK, Germany and France and in sterling and euros.	
WE SECURE THE RIGHT FINANCE	Target a low cost of debt	— We keep the cost of debt well below the net initial yield of the properties to enhance the return on equity. — We use interest rate caps and hedges to control interest rate risk.	COST OF DEBT
	Utilise diversified sources of finance to reduce risk	— We maintain strong links with banks and other lending sources across Europe. — We restrict the exposure of the Group to any one bank. — We own properties in single purpose vehicles, financed by non-recourse bank debt in the currency used to purchase the asset.	
	Maintain high level of liquid resources	— We operate an in-house Treasury team which manages cash and corporate bonds to maximise their returns.	
WE DELIVER VALUE THROUGH ACTIVE MANAGEMENT AND COST CONTROL	Maintain high occupancy rates	— We use in-house local property managers who maintain close links with occupiers to understand their needs. — We focus on the quality of service and accommodation for our customers.	VACANCY RATE ADMINISTRATION COST RATIO
	Maintain a diversified customer base underpinned by a strong core income stream	— We avoid heavy reliance on any one customer or business sector.	
	Maintain strict cost control	— We perform as many back office functions as possible in-house, and monitor our performance against our peer group.	

OUR PERFORMANCE IN 2018	PRIORITIES FOR 2019	LINK TO PRINCIPAL RISKS (see details on pages 18-19)
— Our TSR in 2018 was -12.3%; we came 15th out of 26 in the FTSE 350 Real Estate Super Sector Index. — Return on equity was 11.9%. — Total Accounting Return was 10.8%. — 2 properties acquired for £70.0m at 6.4% NIY. — 11 properties sold for £48.5m at 5.9% NIY.	— We shall continue to dispose of properties with limited potential and reinvest the proceeds in better prospects. — We expect those opportunities will include properties with an element of vacancies for us to address and add value. — We expect better investment opportunities will arise in the UK and Germany.	PROPERTY INVESTMENT RISK
— Weighted average cost of debt reduced to 2.43% (2017: 2.51%), the lowest level it has been. — During the year we took out 10 loans for £137.7m at an average interest rate of 2.16%, of which £92.0m was at fixed rates which averaged 2.20%. — We have 50 loans from 26 lenders. — No bank provides more than 14.8% of our borrowings. — 78 of our 122 properties are owned by single purpose vehicles, principal amounts of debt are non-recourse to the rest of the Group, and all are in the currency used to purchase the asset. — At 31 December 2018, we had liquid resources of £130.6m and undrawn bank facilities of £63.2m.	— With 79% of the Group's debt already at fixed rates, we have the versatility to chose whether to take out new loans at fixed or floating rates. — The £68m of loans expiring in 2019 will be refinanced on a case-by-case basis. — We intend to maintain at least £100m of liquid resources to provide the Group with financing flexibility.	FUNDING RISK
— At 31 December 2018 our occupancy rate was 96.2% (2017: 94.2%). — We have 689 customers. — 28% of our income is derived from government occupiers, and a further 29% from major corporations. — The weighted unexpired lease term is 5.3 years. — Our administration cost ratio for 2018 was 16.0%.	— We will prioritise letting the vacancies generated by refurbishments. — We also expect to buy more vacancies in the year which will receive immediate attention. — We will maintain close and regular contact with customers, particularly in the UK during Brexit. — We will maintain strict financial control on the cost of running the business as it continues to expand.	SUSTAINABILITY RISK TAXATION RISK POLITICAL AND ECONOMIC RISK

Chief Executive's review

Driving growth through active management and portfolio repositioning


Fredrik Widlund,
Chief Executive Officer

OVERVIEW

During the year we made significant progress in working the property portfolio through active, hands-on asset management, reducing the vacancy rate from 5.8% to 3.8%. We also continued to reposition the portfolio with selective disposals and value-add acquisitions. As a result, we have reported an 8.5% increase in EPRA net asset value, a total accounting return of 10.8%, pre-tax profits from continuing operations of £144.9 million and an 8.7% increase in our dividend. The Company has a well-diversified office portfolio of over 120 properties in the largest cities in the UK, Germany and France and we take a long-term view on the prospects of our markets.

REPOSITIONING THE PROPERTY PORTFOLIO

We have continued to reposition the portfolio and have enhanced both our investment team and the local German team to reflect our ambitions and accommodate our growing portfolio in the country.

In 2018, we saw good value in selective opportunities in Germany, but the competition in the investment market strengthened during the year, and despite coming close on a couple of significant potential acquisitions we did not buy any new properties. However, in the UK we were able to recycle capital with a focus on properties where we could add value, with the acquisitions of Harman House, Uxbridge for £51.4 million and

401 King Street, Hammersmith for £16.1 million. Both are close to major rail and road networks. Since the year end, we have exchanged contracts to acquire two properties: in London, a 96,948 sq ft (9,007 sqm) multi-let office property with significant refurbishment potential, 9 Prescot Street, Aldgate, E1 for £53.9 million; and in France, a 44,756 sq ft (4,158 sqm) multi-let office building, Les Reflets, in Lille for £10.2 million, further enhancing our scale in that city.

Our disposal criteria remained threefold: assets which were low yielding with limited potential; investments on which the risk/reward ratio was unfavourably balanced; and properties which were too small to have a meaningful impact on the Group. In aggregate we sold a further eleven assets in 2018 which met these criteria, generating net proceeds of £48.5 million and a profit of 5.3% over book value. Eight of these smaller assets were in the UK, two were in Germany and one in France. In late December, we exchanged contracts on the disposal of a further small property in Germany, purchased within the Metropolis portfolio in 2017, the sale of which for £3.5 million will complete in the first half of 2019.

We completed the developments of 16 Tinworth Street, SE11 and Ateliers Victoires in central Paris. The former is now our Group headquarters above which are nine student apartments which extend our Spring Mews student accommodation development, and the latter was pre-let in its entirety to a leading corporate communications consultancy. Two significant refurbishments were completed towards the end of the year, in New Malden and Brentford, and in total £18.0 million was spent on capital expenditure as part of our upgrading of the portfolio. We have a rolling refurbishment programme and intend to keep investing in our properties to ensure that they continue to meet the needs of our customers now and in the future, and to offer an attractive environment for our occupiers and their employees.

Towards the end of the year, we agreed terms to exit our 58.02% ownership in Swedish vacation site owner and operator, First Camp, with completion expected this month. Under accounting rules, First Camp has been classified as a discontinued operation in 2018 and 2017, and its results have been excluded from our profit after tax, making the income statement a cleaner reflection of our investment property business.

INVESTING IN ASSET MANAGEMENT OPPORTUNITIES

The diversified nature of the portfolio and the strong cash flow it generates allow us to make investments when we see opportunities where others might see short-term, macro-related challenges. In 2018, this was especially true in the UK, where Brexit concerns created openings for contrarian acquisitions which had strong individual property fundamentals over the medium to long term.

We have continued to buy properties with vacancy or with shorter lease lengths if they meet our fundamental criteria of location and connectivity. The validity of these criteria has also manifested itself in the high proportion of tenants which chose to remain in situ at break or lease expiry.

ACTIVE ASSET MANAGEMENT

We strongly believe that we get a more efficient and committed performance from our own employees than if their roles were outsourced, and so we perform all our asset and property management, and financial functions in-house. This is also key to ensuring a close and long-term relationship with our customers.

Having bought properties in 2017 with significant vacancies, in 2018 our team set about filling them, and reduced our vacancy rate from 5.8% to 3.8% in twelve months. To achieve this, we signed 641,500 sq ft (59,600 sqm) in 164 new lettings and renewals at an average of 2.2% above their December 2017 ERVs, whilst only 512,600 sq ft (47,600 sqm) of space vacated or expired. This evidenced the solid demand for non-prime office space in our chosen markets. The major contributors to this result were lettings of 37,243 sq ft (3,460 sqm) and 32,668 sq ft (3,035 sqm) at East Gate, Munich, 12,594 sq ft (1,170 sqm) in Adlershofer Tor in Berlin, and 24,700 sq ft (2,295 sqm) in Bromley.

Two other asset management initiatives are worthy of note. First, excluded from the above numbers because they were reported last year, with effect from 31 March 2018 in properties across the UK we renewed all 15 leases with the Secretary of State for Housing, Communities and Local Government which were due to expire or break on that date, securing annual rental income of £6.6 million for an average of over 5 years. Secondly, and included in this year's numbers, we agreed an annual uplift of over £0.7 million from the Secretary of State for Work and Pensions at New Printing House Square, Gray's Inn Road, WC1 which was backdated to June 2015 and so contributed an additional £2.5 million to rental income in 2018.

VALUE UPLIFTS ACROSS THE PORTFOLIO

At 31 December 2018, there were uplifts in valuations across the entire Group, with a 3.7% increase in values in local currencies (4.4% in sterling). In the UK, the portfolio rose by 0.5%, Germany added 9.3% in local currency, driven by rental growth and reduced vacancy, and the French portfolio rose by 3.8%, of which two-thirds came from the completed development at Ateliers Victoires. In aggregate, the fair value uplifts of the property portfolio added 15.6 pence to EPRA NAV in the year.

The reduction in vacancies in the UK to 4.0% (31 December 2017: 5.5%) drove up the UK's net initial yield, whilst the lower rents from the 15 leases with the Secretary of State reduced it, such that overall the net initial yield based on contracted rents remained broadly unchanged in the UK at 5.6% (31 December 2017: 5.6%). In Germany, the net initial yield was unchanged at 5.4% (31 December 2017: 5.4%); like-for-like contracted rent rose by 4.7% and the vacancy rate reduced to 4.2% (31 December 2017: 7.1%), which drove the valuation uplift in the year. In France, the reduction in vacancies to 2.3% (31 December 2017: 4.4%) was reflected in the 2.1% increase in like-for-like contracted rent, which contributed, with the completion of the development of Ateliers Victoires, to the increase in values in local currency.

→

Chief Executive's review (continued)

> *We continued to reposition the portfolio and enhanced the team to reflect our ambitions*

Valuation uplift

3.7%

Vacancy rate

3.8%

Contracted rent

+5.6%

RESULTS

EPRA earnings of 13.1 pence (2017: 12.6 pence) reflected a strengthening of the underlying business, with EPRA operating profit growing by £3.1 million, and I look forward to further growth in underlying earnings from our strategy to reposition the portfolio towards more growth opportunities. Profit before tax from continuing operations of £144.9 million (2017: £190.5 million) did not have a one-off significant capital profit such as from the sale of Vauxhall Square last year, but did have a gain on revaluation of equities of £22.2 million which is shown in the income statement this year for the first time under a change in accounting standards. It was also driven by the uplift in the fair value of the property portfolio of £62.8 million (2017: £94.2 million) and the profit on sale of properties of £2.3 million (2017: £43.7 million).

LONG-TERM CAPITAL GROWTH

CLS has a business focused on cash flow, a principle to which we adhere strictly for existing properties and acquisitions alike. By maintaining close contact with our customers, we are able to keep the vacancy rate low, and so the difference between our net initial yield of 5.5% and our cost of debt of 2.43% becomes the main driver of cash flow. In 2018, net cash from operating activities was £48.0 million (2017: £48.8 million) and EPRA earnings were £53.5 million (2017: £51.5 million). Of this, £28.1 million (2017: £25.9 million) will be distributed to shareholders, with the balance available to reinvest in the business, together with proceeds of disposals. The results of such reinvestment are evident in the growth in EPRA NAV of 144% in the past five years.

In 2018, we continued to reduce our cost of debt, which reached its lowest ever year end level of 2.43% (31 December 2017: 2.51%), mainly due to the early redemption of our £65 million 5.5% unsecured bonds due 2019. Our financing is largely insulated from any economic downturn; 79% of our debt is now at fixed rates and for an average duration of 3.8 years.

A CULTURE BUILT ON RELEVANCE AND SUSTAINABILITY

Office occupation is changing, with customer requirements and, arguably even more so, employees' preferences becoming more demanding. This is a trend which is likely to continue, and one which we embrace and encourage. We work closely with our customers to ensure the space which we provide is to their needs and specifications, whilst fitting to a cost-conscious mindset. Likewise, we listen to our employees and design their work experience accordingly. In 2018 we relocated into new offices owned by the Group in London and Hamburg so that now all of our offices are in newly-built or refurbished premises which incorporate recommendations and suggestions from our latest employee survey, and represent best practice in office accommodation.

We have a rolling programme to make our buildings more sustainable, and we work closely with tenants to ensure the best standards of recycling and environmental welfare are followed. Full details of our work on sustainability is set out in the corporate, social and environmental responsibility report on page 30.

THE FUTURE

The Group continues to benefit from its geographical diversification with both Germany and France likely to offset future challenges in the UK from Brexit. However, despite recent uncertainty, our UK portfolio continues to deliver a resilient performance due to its lower exposure to the prime locations which are likely to be more affected by Brexit. We are strong believers in the long-term prospects for Greater London, and with increased infrastructure spending and clarity on Brexit, we believe the current market sentiment will turn to a more balanced view. Economic growth has slowed globally but the resilience of the German economy and the lack of new office space supply in both Germany and France are creating good opportunities over time.

At 31 December 2018, the United Kingdom accounted for 51% of the portfolio, Germany 33% and France 16%. Our investment strategy remains geographically flexible and based on the characteristics of individual assets. We will continue to investigate opportunities in each of our three core countries, and to dispose of properties with limited potential and reinvest the proceeds in better prospects. 2018 was a year of uncertainty from which we were able to prosper, and with the existing pipeline of new opportunities, we face the future with confidence.

Fredrik Widlund
Chief Executive

Our investor proposition

Cash and capital returns

A pan-European strategy

PAN-EUROPEAN FOCUSED

We are a pan-European property company which offers geographical diversity. We have a history of delivering strong financial and operational results, and a well-regarded strategy that continues to deliver sustainable returns to shareholders.

DIVIDEND POLICY

The Company expects to generate sufficient cash flow to be able to meet the growth requirements of the business, maintain an appropriate level of debt and provide cash returns to shareholders via a dividend.

It is our policy to pay a progressive dividend fully covered by EPRA earnings. Approximately one-third of the annual dividend is paid as an interim in September, with the balance paid as a final dividend in April.

CAPITAL MARKETS DAY

We will be holding a Capital Markets Day in Hamburg, Germany on 4 April 2019, at which our local team will highlight how we intend to deliver further value from our German portfolio.

ANALYST COVERAGE

We are covered by four brokers which publish regular analyst research: Liberum Capital, Whitman Howard, Peel Hunt and Berenberg. Contact details can be found on our website www.clsholdings.com.

INVESTOR ENGAGEMENT

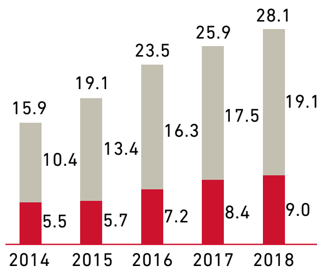
March 2019
Annual Results presentation; Annual Results Roadshows: London and Edinburgh

April 2019
Annual General Meeting; Capital Markets Day (Hamburg)

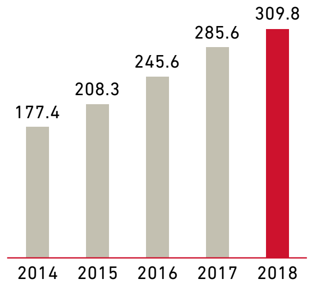
August 2019
Half-year presentation

August/September 2019
Half-year results roadshows: London and Edinburgh

DISTRIBUTIONS (£m)



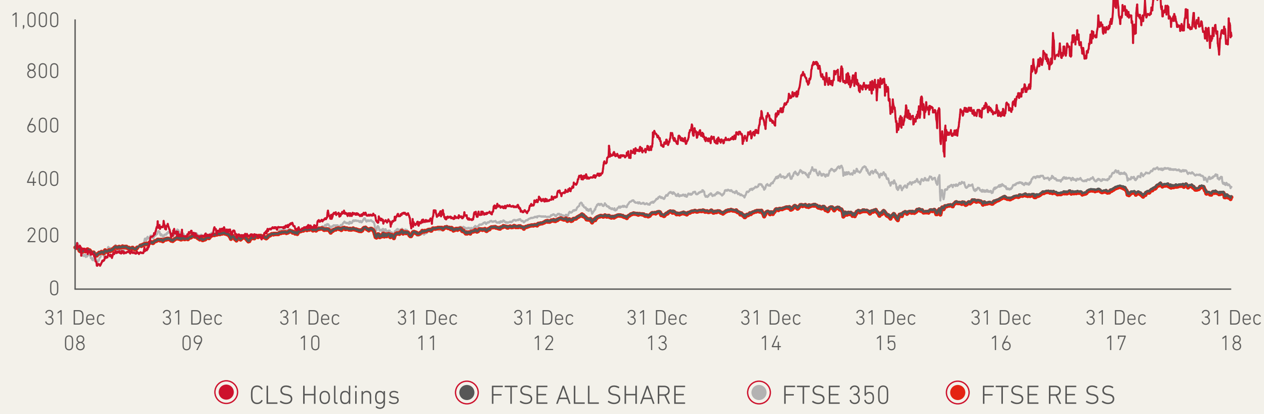
EPRA NAV (pence)



TOP 10 SHAREHOLDERS (%)

1. The Sten and Karin Mortstedt Family and Charity Trust	51.4
2. Fidelity Worldwide Investment	9.6
3. Bengt Mortstedt	6.5
4. Bank of Montreal	6.1
5. Invesco	5.0
6. Schroders	2.5
7. AXA	1.7
8. Janus Henderson Group	1.2
9. JP Morgan Chase & Co	1.0
10. NW Brown Group	0.9

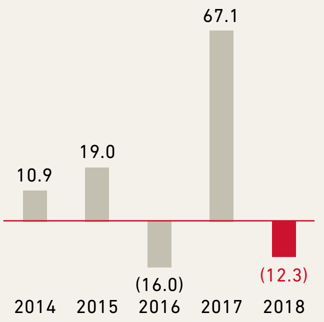
TOTAL RETURNS TO SHAREHOLDERS 2008–2018 (bps)



Key Performance Indicators

Measuring the tangible performance of our strategy

TOTAL SHAREHOLDER RETURN – ABSOLUTE (%)



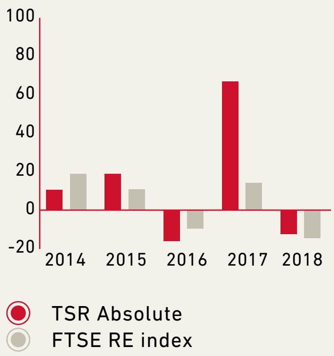
DEFINITION
The annual growth in capital in purchasing a share in CLS, assuming dividends are reinvested in the shares when paid.[1]

WHY THIS IS IMPORTANT TO CLS
This KPI measures the increase in the wealth of a CLS shareholder over the year.

OUR TARGET FOR 2018
In 2018, our target Total Shareholder Return (absolute) was between 12% and 16%.

PROGRESS
In 2018, the Total Shareholder Return of -12.3% reflected the fall in the share price in the year, particularly in the final quarter when the share prices of most of the FTSE 350 Real Estate Super Sector fell, which was reflected in the average of the sector recording a TSR of -14.4%.

TOTAL SHAREHOLDER RETURN – RELATIVE (%)



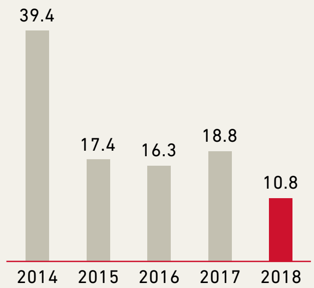
DEFINITION
The annual growth in capital in purchasing a share in CLS, assuming dividends are reinvested in the shares when paid, compared to the TSR of the other 25 companies in the FTSE 350 Real Estate Super Sector Index.

WHY THIS IS IMPORTANT TO CLS
This KPI measures the increase in the wealth of a CLS shareholder over the year, against the increase in the wealth of the shareholders of a peer group of companies.

OUR TARGET FOR 2018
In 2018, our target Total Shareholder Return (relative) was between the median and upper quartile.

PROGRESS
In 2018, the TSR was -12.3%, making CLS the 15th ranked share of the FTSE 350 Real Estate Super Sector Index of 26 companies.

TOTAL ACCOUNTING RETURN (%)



DEFINITION
The aggregate of the change in EPRA NAV plus dividends paid, as a percentage of the opening EPRA NAV, which is also known as Total Accounting Return.

WHY THIS IS IMPORTANT TO CLS
This KPI measures the increase in EPRA net assets per share of the Company before the payment of dividends, and so represents the value added to the Company in the year.

OUR TARGET FOR 2018
In 2018, our target Total Accounting Return was between 6% and 9%.

PROGRESS
In 2018, the Total Accounting Return was 10.8%.

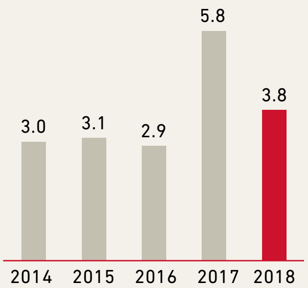
1 For the purposes of calculating this KPI for executive remuneration, the market price is calculated as the average closing share price in December, not the closing share price at the end of December, to avoid bonuses being paid based on distorting fluctuations around the year end.

STRATEGY

We acquire the right properties... | *...we secure the right finance...* | *...we deliver value through active management and cost control*

For more information on our strategy see **pages 10-11**

VACANCY RATE (%)



DEFINITION

The ERV of vacant lettable space, divided by the aggregate of the contracted rent of let space and the ERV of vacant lettable space.

WHY THIS IS IMPORTANT TO CLS

This KPI measures the potential rental income of unlet space and, therefore, the cash flow which the Company would seek to capture.

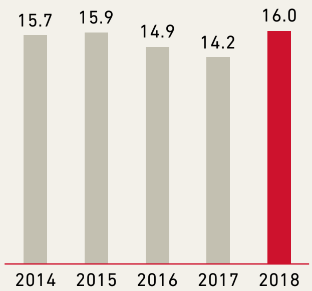
OUR TARGET FOR 2018

We target a vacancy rate of between 3% and 5%; if the rate exceeds 5%, other than through recent acquisitions, we may be setting our rental aspirations too high above the current market; if it is below 3% we may be letting space too cheaply.

PROGRESS

At 31 December 2018, the vacancy rate was 3.8%, or 4.0% on a like-for-like basis.

ADMINISTRATION COST RATIO (%)



DEFINITION

The administration costs of the Group, excluding those of the Other Investments segment, divided by the net rental income of the Group.

WHY THIS IS IMPORTANT TO CLS

This KPI measures the administration cost of running the core property business by reference to the net rental income that it generates, and provides a direct comparative to most of our peer group.

OUR TARGET FOR 2018

In 2018, our target administration cost ratio was between 16.5% and 14.5%.

PROGRESS

In 2018, the administration cost ratio was 16.0% (see note 5).

OTHER PERFORMANCE INDICATORS

In addition to the key performance indicators of the Group, which are all tied to executive remuneration, the Group also has other performance indicators by which it measures its progress, and these include:

— Cost of debt – we seek to maintain a cost of debt at least 200 bps below the Group's net initial yield. At 31 December 2018, the cost of debt (2.43%) was 307 bps below the net initial yield (5.5%).
— Sustainability – we seek to minimise our impact on the environment by targeting a 5% reduction in carbon emissions each year in our like-for-like managed portfolio. In 2018, we achieved a 15.9% reduction (2017: 9.3%).
— Customer retention – through our active asset management we seek to retain more than 50% of our tenants by value. In 2018, 52% of our leasing transactions were lease renewals (2017: 66%).
— Health & Safety – we work hard to ensure that the health and safety of our employees, customers, advisors, contractors and the general public is not compromised and pride ourselves on remaining below the UK National Accident Frequency rate. For 2018, the national rate was 930 per 100,000 people; CLS's was 124. This rate is calculated by dividing the number of accidents reported in the year by the number of people occupying our buildings.

Link to Remuneration

All of the Group's Key Performance Indicators are linked to executive remuneration, **see page 61.**

Principal risks and uncertainties

Risks spread through diversity

	RISK	AREAS OF IMPACT	CHANGE IN RISK IN YEAR (PRE-MITIGATION)	MITIGATION
Property investment	**Underperformance of investment portfolio due to:** — Cyclical downturn in property market	Cash flow Profitability Net asset value Banking covenants	Increased	Geographically-diversified portfolio with 49% of the Group's properties being outside the UK, in two of the most stable economies in Europe.
	— Changes in supply of space and/or occupier demand	Rental income Cash flow Vacancy rate Void running costs Property values Net asset value	Increased	43% of UK income is derived from Government tenants. Minimal exposure to the type of tenant who may want to relocate from the UK to elsewhere in Europe. In-house asset management enables management to highlight and address tenant needs.
	— Downturn in market due to increase in yields	Cash flow Profitability Net asset value Banking covenants	Increased	Geographically-diversified portfolio with 49% of the Group's properties being outside the UK, in two of the most stable economies in Europe.
	— Poor asset management	Rental income Cash flow Vacancy rate Void running costs Property values Net asset value	Unchanged	Asset management is not outsourced, property teams proactively manage customers to ensure changing needs are met, and review the status of all properties weekly. Written reports are submitted monthly to senior management on, inter alia, vacancies, lease expiry profiles and progress on rent reviews.
Sustainability	**Increasing building regulation and obsolescence**	Rental income Cash flow Vacancy rate Net asset value Profitability Liquid resources	Unchanged	Continual assessment of all properties against emerging regulatory changes. Fit-out and refurbishment projects benchmarked against third-party schemes.
	Increasing energy costs and regulation	Net asset value Profitability Liquid resources	Unchanged	Investment in energy efficient plant and building-mounted renewable energy systems

	RISK	AREAS OF IMPACT	CHANGE IN RISK IN YEAR (PRE-MITIGATION)	MITIGATION
Funding	**Unavailability of financing at acceptable prices**	Cost of borrowing Ability to invest or develop	Unchanged	The Group has a dedicated treasury team and relationships are maintained with some 26 lenders, thus reducing credit and liquidity risk. The exposure on refinancing debt is mitigated by the lack of concentration in maturities.
Funding	**Adverse interest rate movements**	Cost of borrowing Cost of hedging	Increased	79% of borrowings are at fixed rates and 3% are subject to interest rate caps.
Funding	**Breach of borrowing covenants**	Cost of borrowing	Increased	Borrowing agreements contain cure clauses to rectify LTV breaches through part repayment of the loan or the depositing of cash.
Funding	**Foreign currency exposure**	Net asset value Profitability	Reduced	Property investments are partially funded in matching currency. The difference between the value of the property and the amount of financing is generally unhedged and monitored on an ongoing basis.
Funding	**Financial counterparty credit risk**	Loss of deposits Cost of rearranging facilities Incremental cost of borrowing	Increased	The Group has a dedicated treasury team and relationships are maintained with 26 lenders, thus reducing credit and liquidity risk. The exposure on refinancing debt is mitigated by the lack of concentration in maturities.
Political and economic	**Impact of UK exit from the EU**	Net asset value Profitability Availability of funding	Increased	43% of rents in the UK are derived from central government departments. On a macro level, the Group operates in the three largest and most stable economies in Europe.
People	**Failure to recruit suitable staff to accommodate investment expansion**	Rental income Cash flow Vacancy rate Void running costs Property values Net asset value	Increased	Staffing levels and recruitment are addressed as part of investment decisions.
People	**Failure to recruit, develop and retain staff and key executives with the right skills**	Profitability Net asset value	Unchanged	The semi-annual appraisal process assesses capabilities and generates training plans. Staff turnover and engagement is monitored across the Group. Succession planning is in place for all senior management roles.
Catastrophic event	**Large scale terrorist or cyber attack, environmental disaster or power shortage**	Profitability Net asset value	Increased	Business continuity and crisis management plans are in place. Cyber penetration testing is carried out periodically.

The following is no longer considered one of the principal risks and uncertainties by the Board:

Other Investments with the corporate bond portfolio having been reduced to £30 million and likely to fall further as more bonds are sold to finance property acquisitions.

Business review: **United Kingdom**

Repositioning for long-term income growth

Value of investment properties

£954.1m

Lettable space

2.6m sq ft

Number of tenants

214

Percentage of Group's property interests

51%

Vacancy rate

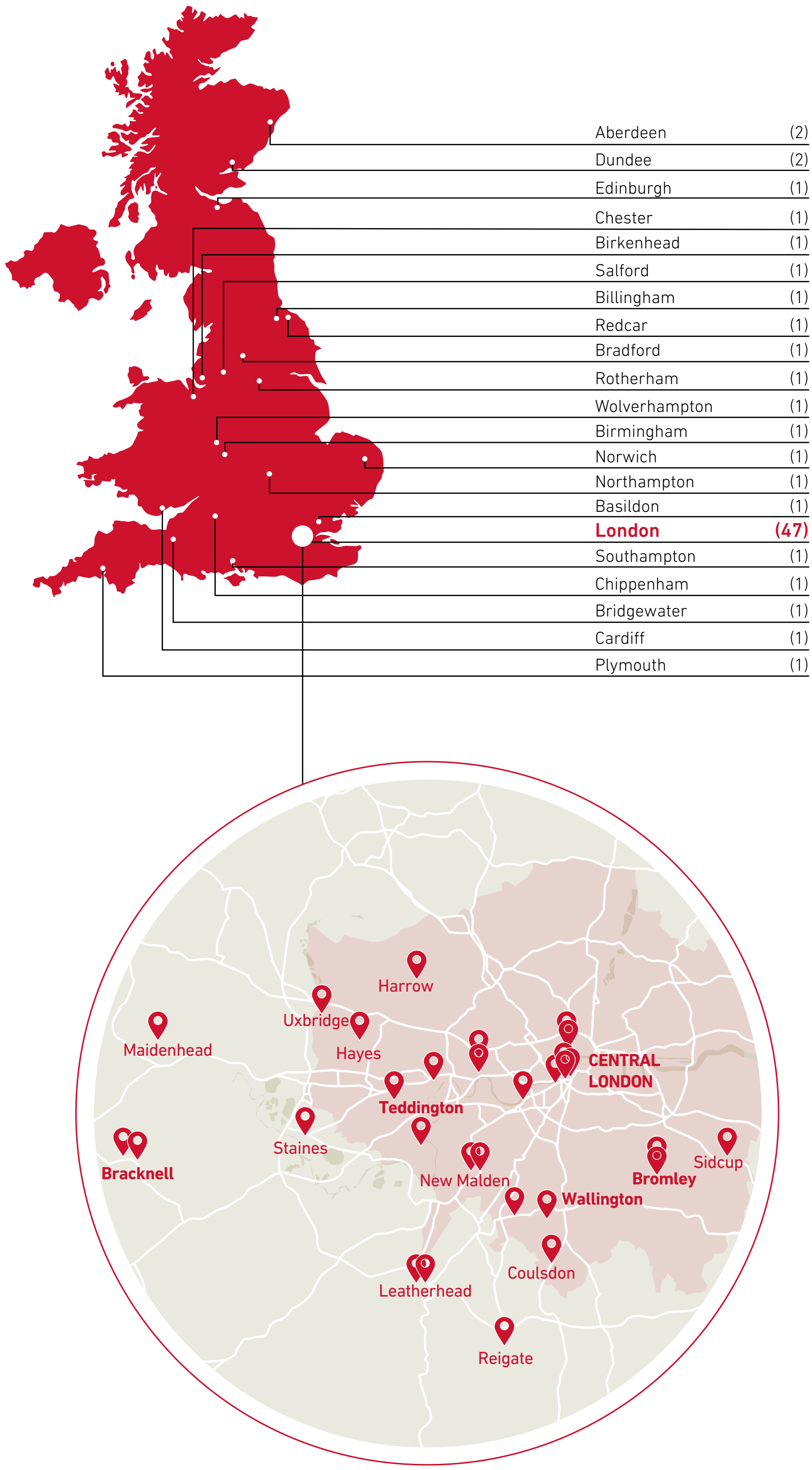
4.0%

Government and major corporates

68.3%

Value of investment properties in London

£877.2m



Harman House, Uxbridge

Acquired

2018

9-storey office building

129,060 sq ft

Location

1 George St, Uxbridge

Acquired for £51.4 million at a net initial yield of 6.9% and an estimated reversionary yield of 7.8%, Harman House is a multi-let office property accommodating ten tenants and is adjacent to Uxbridge Underground station in the town centre. It was extensively refurbished in 2014, and has potential for management initiatives to capture value through rental potential.

UK OVERVIEW

The UK economic outlook continues to be dominated by uncertainty over Brexit, but the office investment markets have shown resilience. In 2018, the investment market experienced its second largest level of activity in ten years, and occupational markets have been noticeable for their pragmatism, with landlords focusing more on occupancy than rental growth. Any forecasting is very difficult in the current environment for obvious reasons but with the delivery of large infrastructure projects and solid fundamentals for non-prime offices, we believe the current market sentiment, especially in Greater London, will continue to offer an attractive investment case.

ACQUISITIONS

Our UK acquisition activity in 2018 focused on London properties with strong potential. In March, we acquired Harman House, Uxbridge for £51.4 million, representing a net initial yield of 6.9%. This 129,060 sq ft (11,990 sqm) multi-let office building, which was extensively refurbished in 2014, is fully-let to 10 tenants on an average unexpired lease term of 7.9 years and has a reversionary rent profile with an estimated yield of 7.8%. In April, we bought 401 King Street, Hammersmith for £16.1 million. This 24,566 sq ft (2,282 sqm) office is expected to generate 5.9% when all leases revert to market rents, and significantly more after a refurbishment planned for the third floor.

DISPOSALS

In 2018 we continued to reposition the UK portfolio with the sale of eight properties for an aggregate £38.6 million at 5.2% above their values at 31 December 2017. Seven, in Chertsey, Datchet, Plymouth, St Asaph, Birmingham and two in Peterborough, were in line with our policy of disposing of properties which were too small to have a meaningful impact on the Group, and the eighth, Buspace in Notting Hill, which was sold for £13.5 million, was low yielding and had limited office potential.

ASSET MANAGEMENT

The vacancy rate in the UK fell to 4.0% at 31 December 2018 (2017: 5.5%) predominantly because we let or renewed leases on 201,759 sq ft (18,744 sqm) whilst only 171,598 sq ft (15,942 sqm) of space either expired or became vacant. Excluding those arising from contractual indexation uplifts, 56 rent reviews, lease extensions and new leases added £5.7 million of rent, at 2.1% above ERVs from 31 December 2017. On a like-for-like basis, ERVs fell marginally in the UK, mainly in London, but the portfolio remained 3.8% net reversionary, including 5.1% in London.

DEVELOPMENTS

In the summer, we completed the development of 16 Tinworth Street, SE11, an £8.6 million, 7-storey development of 9,181 sq ft (853 sqm) of office and residential accommodation, which now houses the Group's headquarters and nine student apartments.

In January, we secured a resolution to grant planning permission for a new 10-storey residential and office development at Quayside Lodge, Fulham SW6 to replace a 30,000 sq ft office building. The 160,000 sq ft (14,865 sqm) development will provide 11,500 sq ft of office space, 110 residential units, of which 35% will be affordable, 200 cycle spaces and electric car charging points.

VALUATION

The UK portfolio was revalued upwards by 0.5% in the year. Like-for-like contracted rents rose by 2.8%, dampened by the Secretary of State renewals in March, whilst like-for like ERVs fell by 0.6%. The yield in the UK was unchanged at 5.6%.

Business review: **Germany**

Actively looking to invest in larger cities

Value of investment properties

£629.4m

Lettable space

3.2m sq ft

Number of tenants

314

Percentage of Group's property interests

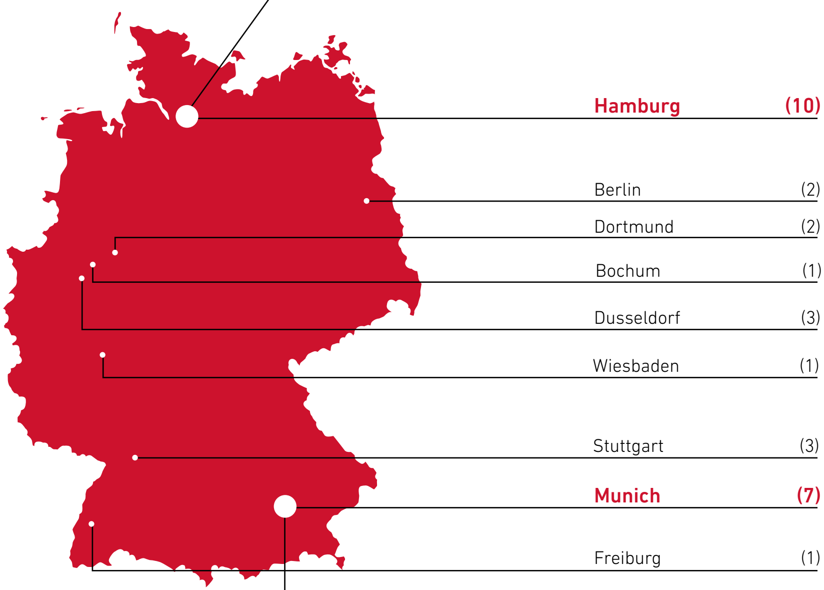
33%

Vacancy rate

4.2%

Government and major corporates

40.8%



Metropolis Portfolio

Acquired

2017

Portfolio

12 Assets

Locations

8 Cities

We spent £140.1 million on 12 properties, which generated net annual rent of £8.9 million and a net initial yield of 6.3%, with 11% of the space vacant. Our plan was to sell the two smallest properties and reduce the vacancies of the rest. In 2018, we sold Marler Stern for £1.3 million and exchanged contracts to sell Witten in 2019 for £3.5 million. We have let 149,236 sq ft and the vacancy rate has been reduced to 8.4% at 31 December 2018.

GERMANY OVERVIEW

The growth of the German economy slowed in the second half of 2018 from the impact on German exports of a global slowdown. Notwithstanding the overall economic position, unemployment is expected to remain below 5% and there is a shortage of skilled labour in many industries. The property investment market in Germany recorded its highest ever annual volume of transactions in 2018. Vacancy levels for offices in the big seven cities have been at record low levels, and a limited supply of new offices drove rental growth and capital growth in 2018. The supply of the office market is unlikely to increase materially in the near-term with over half of offices under construction having been pre-let.

ACQUISITIONS

Following the very successful acquisition programme of £187.7 million in 2017, we continued actively to pursue further asset purchases in Germany in 2018. We submitted offers on over £500 million of investment opportunities, but we were not prepared to compromise our process of due diligence, nor to overpay for investments, and in the event we did not acquire any properties in Germany in the year. The German market, and the German economy, remain attractive to us, we continue to see good value in selective opportunities, and we expect to invest further in Germany in 2019.

DISPOSALS

We continued to apply our disposal criteria to the existing portfolio and sold two properties in Germany in the year, one a fully let building on which the risk/reward was unfavourably balanced, and the other one of two small properties earmarked for sale at the time they were acquired within the Metropolis portfolio in 2017.

Merkurring 33/35 in Hamburg was sold for £6.2 million. The property, which comprised 60,321 sq ft (5,604 sqm) of industrial and office space, was peripheral to the Group's activities, and relied too heavily on its main tenant. Within the Metropolis portfolio of 12 properties acquired in 2017, Marler Stern was a 5% interest in a shopping centre, and was sold at its book value of £1.3 million.

In December we exchanged contracts to sell the second small property from the Metropolis portfolio, Marktstrasse 2, Witten for £3.5 million.

ASSET MANAGEMENT

The vacancy rate in Germany fell to 4.2% at 31 December 2018 (2017: 7.1%) predominantly because whilst 271,220 sq ft (25,197 sqm) of space either expired or became vacant, we let or renewed leases on 329,199 sq ft (30,584 sqm). Excluding those arising from contractual indexation uplifts, 64 lease extensions and new leases added £7.2 million of rent, at 2.3% above ERVs from 31 December 2017. On a like-for-like basis, ERVs rose by 5.0% in the year, and at 31 December 2018, the German portfolio was 5.8% net reversionary.

DEVELOPMENTS

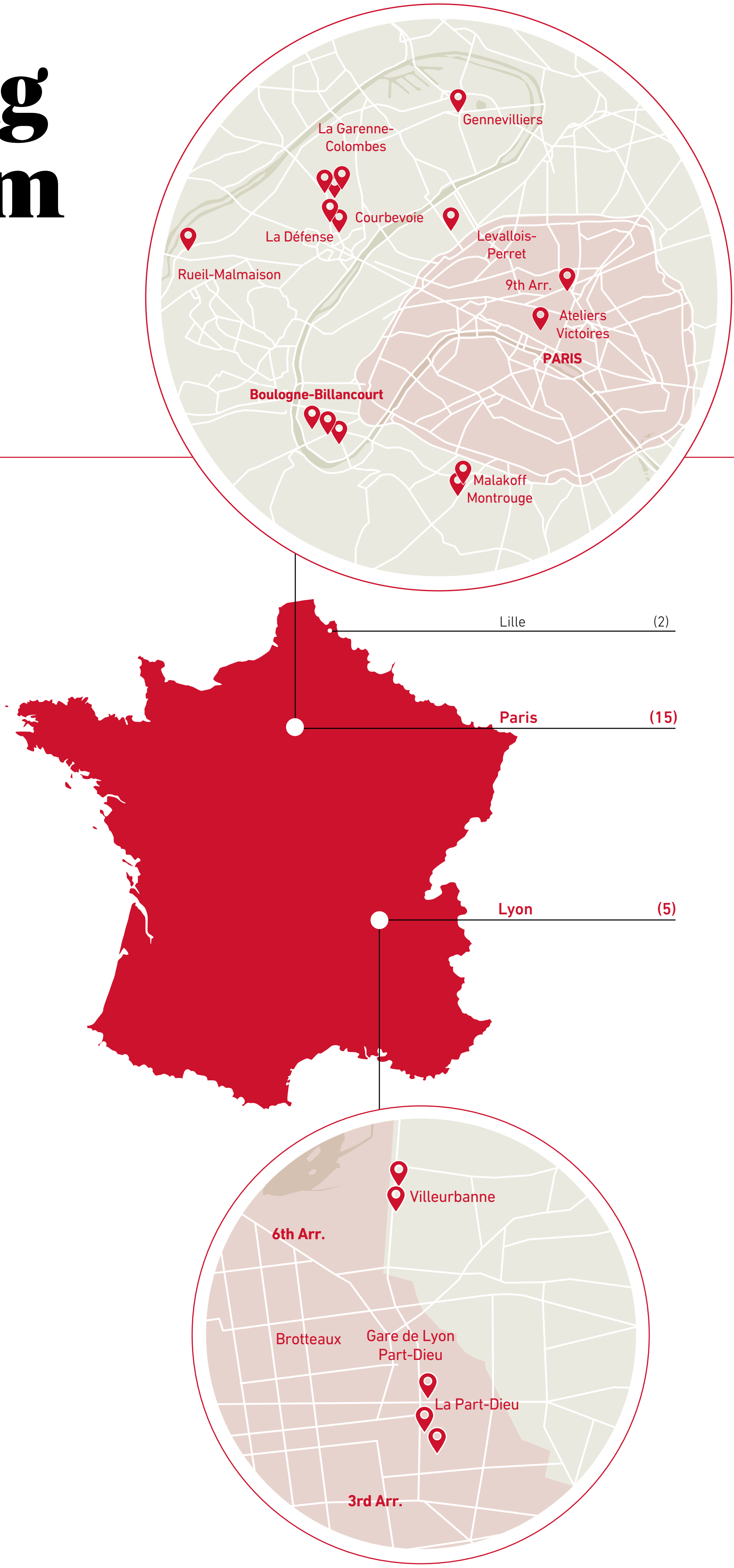
In addition to planned capital expenditure of £5 million per annum, we are examining the development potential at Vor Dem Lauch 14 in Stuttgart, acquired with the Metropolis portfolio in 2017.

VALUATION

The German portfolio rose by a valuation uplift of 9.3% in local currency, driven by a 4.7% increase in like-for-like contracted rent and a 5.0% increase in like-for-like ERVs. Vacancies fell from 7.1% to 4.2%, and the net initial yield was unchanged at 5.4%.

Business review: **France**

Delivering value from existing assets



Value of investment properties

£308.1m

Lettable space

0.9m sq ft

Number of tenants

161

Percentage of Group's property interests

16%

Vacancy rate

2.3%

Government and major corporates

49.4%

Ateliers Victoires, Paris

Refurbished

2018

Office building

21,500 sq ft

Location

8 Rue Croix des Petits Champs

A prime office refurbishment in central Paris close to the Louvre. This boutique-style office building reached practical completion in 2018 and was pre-let in its entirety to Epoka, a leading consultancy in corporate communications, HR and marketing.

FRANCE OVERVIEW

Whilst the growth prospects of the French economy have suffered from the impact of street protests, consumer spending and political measures announced during 2018 are forecast to have a positive impact on growth in 2019. The office investment market in 2018 has been buoyant, across both Paris and the regions, and property yields outside Paris have fallen. The occupational market has remained strong, with a vacancy rate in the Greater Paris area around 5%, in part reflecting historically low levels of supply and high numbers of pre-lettings for new schemes.

ACQUISITIONS

In December 2018 we exchanged contracts to acquire Les Reflets, 15 Rue Jean Walter in Lille; completion is anticipated early in 2019. This four-year-old multi-let office building comprises 44,756 sq ft (4,158 sqm) of fully-let offices, and its cost of £10.2 million reflects a net initial yield of 6.6%. Our other acquisitions in France in 2018 were restricted to enhancing our existing portfolio, acquiring a further floor in a multi-owned building in Lyon and a car park in Paris.

DISPOSALS

In line with our policy of disposing of properties too small to have a meaningful impact on the Group, in December we sold 18 Rue Stephenson in Paris for £2.5 million, over 8% above its value at December 2017.

ASSET MANAGEMENT

The vacancy rate in France fell to 2.3% at 31 December 2018 (2017: 4.4%) mainly because we let or renewed leases on 110,578 sq ft (10,273 sqm), and lost only 69,782 sq ft (6,483 sqm) of space from expiries or new vacancies. Excluding those arising from contractual indexation uplifts, 44 rent reviews, lease extensions and new leases added £3.3 million of rent, at an average of 1.9% above ERVs of 31 December 2017. On a like-for-like basis there was no change in ERVs in the French portfolio over the 12 months, and at the end of 2018 the portfolio was broadly rack-rented.

DEVELOPMENTS

Ateliers Victoires is a 21,500 sq ft (2,000 sqm) prime office refurbishment in central Paris close to the Louvre. This boutique-style office building has a rooftop garden terrace with panoramic views across the city and we pre-let the entire building to a single tenant prior to practical completion.

VALUATION

The French portfolio valuation rose by 3.8% in local currency, of which the completed pre-let development of Ateliers Victoires accounted for two-thirds; of the remainder, contracted rent on a like-for-like basis rose by 2.1%, and the net initial yield was unchanged at 5.2%.

Chief Financial Officer's review

A strong underlying business supported by a low cost of debt

John Whiteley,
Chief Financial Officer

RESTATEMENT OF COMPARATIVES

In this annual report, the Group's 58.02% interest in First Camp Sverige Holding AB has been disclosed as a discontinued operation for the first time (see note 24), and all comparatives have been restated accordingly.

HEADLINES

Profit after tax from continuing operations and attributable to the owners of the Company of £132.8 million (2017: £157.0 million) generated basic earnings per share of 32.6 pence (2017: 38.5 pence) and EPRA earnings per share of 13.1 pence (2017: 12.6 pence). The loss after tax from discontinued operations and attributable to the owners of the Company of £8.5 million (2017: profit of £0.7 million) generated a basic loss per share of 2.1 pence (2017: earnings of 0.2 pence). EPRA net assets per share rose by 8.5% to 309.8 pence (2017: 285.6 pence), and basic net assets per share by 9.3% to 275.5 pence (2017: 252.0 pence).

Approximately 51% of the Group's business is conducted in the reporting currency of sterling and 49% in euros. Compared to last year, relative movements of sterling against the euro did not have a material impact on the Group's results for the year or on its state of affairs: sterling's average rate weakened against the euro by 1.0% and at 31 December 2018 sterling was 1.2% weaker against the euro than twelve months previously.

EXCHANGE RATES TO THE £

	EUR
At 31 December 2016	1.1731
2017 average rate	1.1416
At 31 December 2017	1.1260
2018 average rate	1.1304
At 31 December 2018	1.1122

INCOME STATEMENT

In 2018, rental income of £103.0 million was £9.3 million higher than in 2017. Acquisitions added £11.4 million and a back-dated rent review at New Printing House Square a further £1.8 million, whilst disposals accounted for a fall of £4.6 million. Other general letting activity produced a like-for-like increase of 1% in rental income over last year's.

Other property income of £6.9 million (2017: £8.3 million) included hotel revenue from Spring Mews of £4.4 million (2017: £4.4 million) and dilapidations and other one-off receipts of £2.5 million (2017: £3.9 million). In aggregate net rental income rose by 7.3% to £107.3 million (2017: £100.0 million).

We monitor the administration expenses incurred in running the property portfolio by reference to the net rental income derived from it, which we call the administration cost ratio, and this is a key performance indicator of the Group (see note 5 to the Group financial statements). Personnel costs account for 70% of administration expenses, and in 2018 we expanded the team in Germany to accommodate the recent increase in the German portfolio and further expansion still to come. Consequently, the administration cost ratio rose to 16.0% (2017: 14.2%), which was well within our KPI target for the year of 16.5%.

The net surplus on revaluation of investment properties of £62.8 million (2017: £94.2 million) reflected contributions from each country: in local currencies, Germany had the strongest year with a 9.3% rise in values, France rose by 3.8%, and the UK contributed 0.5%.

Our interest in Catena AB, an equity security listed in Stockholm, is carried in the balance sheet at its fair value.

EPRA eps

13.1p

(2017: 12.6p)

Cost of debt

2.43%

(2017: 2.51%)

Interest cover

3.8x

(2017: 3.9x)

Under IFRS 9 *Financial Instruments*, the movement in its fair value is recognised in the income statement in 2018 for the first time. The Catena share price rose by 39.7% in the year, generating a fair value gain of £22.2 million.

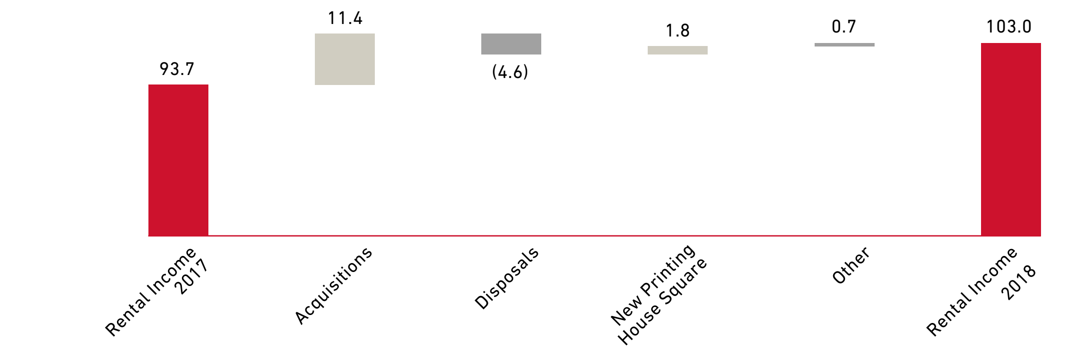
The profit on sale of properties of £2.3 million (2017: £43.7 million) represented a 5.3% excess of net proceeds over book values of the eleven properties sold in the year. The large profit in 2017 was predominantly £41.4 million on the disposal of Vauxhall Square.

Finance income of £6.1 million (2017: £10.0 million) comprised interest income of £4.2 million (2017: £4.4 million) from our corporate bond portfolio,

“

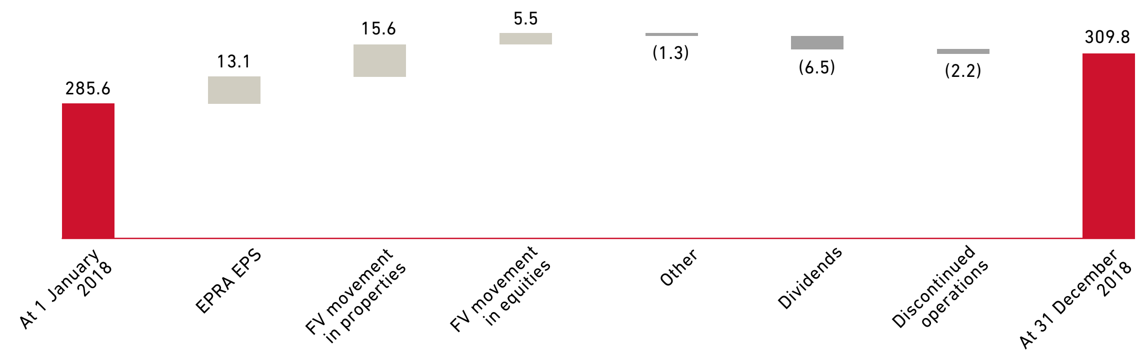
The weighted average cost of debt at 31 December 2018 was 2.43%, 8 bps lower than 12 months earlier and the lowest in the Group's history

MOVEMENT IN RENTAL INCOME (£m)



Chief Financial Officer's review (continued)

MOVEMENT IN EPRA NAV
(pence)



dividends from Catena of £1.7 million (2017: £1.4 million), other interest of £0.2 million (2017: £2.4 million), and foreign exchange variances of £nil (2017: £1.8 million).

Finance costs of £26.5 million (2017: £32.4 million) included a loss of £3.7 million (2017: £9.7 million) on the early redemption of £65 million 5.5% unsecured bonds due 2019, 17 months early, which reduced the average cost of borrowing by 21 bps. Excluding this, foreign exchange variances, gains on the fair value movements of derivative financial instruments and capitalised interest, interest costs were £24.5 million (2017: £26.1 million) reflecting a lower level of borrowings in the year at a lower average cost.

The tax charge of 8.4% was significantly below the weighted average rate of the countries in which we do business (19.5%), primarily due to two factors: first, a fall in the future rate of tax in France which has been applied to the deferred tax on the cumulative revaluation surplus of the French portfolio; and, secondly, the fair value gain of the equity investment in Catena, which was not subject to tax.

The loss from discontinued operations primarily reflected a write down of the net assets of First Camp to the expected proceeds. Of the loss of £14.9 million, £8.5 million was attributable to the owners of the Company. The disposal of our interest in First Camp has further rationalised the Group and has taken away the distortion which accounting for 100% of the assets, liabilities and income statement line items of a non-core business in which the Group owned 58% had on our corporate metrics, such as interest cover and gearing.

Overall, EPRA earnings were 4.0% higher than last year at £53.5 million (2017: £51.5 million), and generated EPRA earnings per share of 13.1 pence (2017: 12.6 pence).

EPRA NET ASSET VALUE

At 31 December 2018, EPRA net assets per share were 309.8 pence (2017: 285.6 pence), a rise of 8.5%, or 24.2 pence per share. The main reasons for the increase were EPRA earnings per share of 13.1 pence and the benefit of the uplift in the valuation of the investment property portfolio of 15.6 pence, less dividends of 6.5 pence per share.

CASH FLOW, NET DEBT AND GEARING

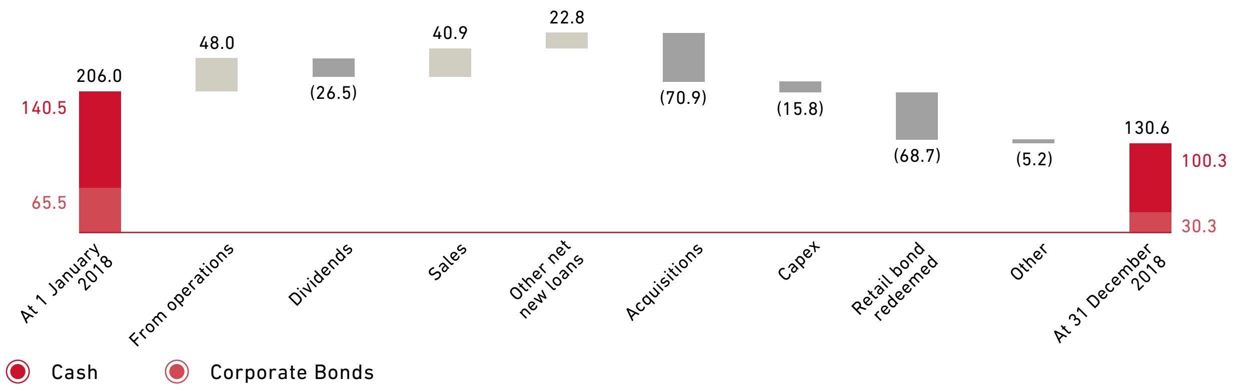
Net cash flow from operating activities generated £48.0 million, of which £26.5 million was distributed as dividends. Proceeds after tax from property disposals of £40.9 million were redeployed in acquisitions of £70.9 million and capital expenditure of £15.8 million. Net repayments of debt were £45.9 million, and by 31 December 2018, the Group's cash balances had been reduced by £40.2 million to £100.3 million. These were supplemented by £30.3 million of corporate bonds and undrawn bank facilities of £63.2 million, of which £37.7 million was committed.

Gross debt fell by £34.4 million to £842.3 million, notwithstanding a rise of £4.8 million due to foreign exchange rate movements. £158.6 million were repaid in the year and £137.7 million of new or replacement loans were taken out. At 31 December 2018, the weighted average unexpired term of the Group's debt was 3.5 years (2017: 3.6 years).

Balance sheet loan-to-value (net debt to property assets) at 31 December 2018 was 36.7% (2017: 36.9%) and the value of properties not secured against debt rose to £283.6 million (2017: £246.7 million).

The weighted average cost of debt at 31 December 2018 was 2.43%, 8 bps lower than 12 months earlier and the lowest year end rate in the Group's history. The early redemption of the unsecured bonds accounted for 21 bps

MOVEMENT IN LIQUID RESOURCES
(£m)



of that fall, net new bank loans increased the average cost by 4 bps, and margin step-ups and an increase in LIBOR added 9 bps. In 2018, our low cost of debt led to recurring interest cover of 3.8 times (2017: 3.9 times).

FINANCING STRATEGY

The Group's strategy is to hold its investment properties predominantly in single-purpose vehicles financed primarily by non-recourse bank debt in the currency used to purchase the asset. In this way credit and liquidity risk can most easily be managed, around 49 % of the Group's exposure to foreign currency is naturally hedged, and the most efficient use can be made of the Group's assets. An exception is where a portfolio is acquired, such as the Metropolis properties in 2017, and is financed by a single loan. At 31 December 2018, the Group had 50 loans across the portfolio from 26 lenders, plus some secured notes.

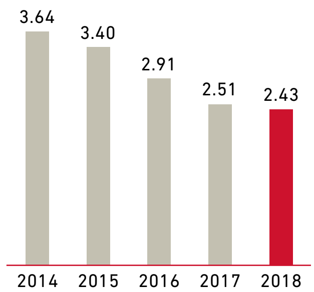
To the extent that Group borrowings are not at fixed rates, the Group's exposure to interest rate risk is mitigated by financial derivatives, mainly interest rate swaps. In the recent medium-term low interest rate environment, the Board chose to take advantage of the conditions, fixing most of the medium-term debt taken out during the year. In 2018, the Group financed or refinanced 10 loans to a value of £137.7 million for a weighted average duration of 5.8 years and at a weighted average all-in rate of 2.16%, and of these £92.0 million were fixed at a weighted average all-in rate of 2.20%. Consequently, at 31 December 2018, 79% of the Group's borrowings were at fixed rates or subject to interest rate swaps, 3% were subject to caps and 18% of debt costs were unhedged; the fixed rate debt had a weighted average maturity of 3.8 years, and the floating rate 2.2 years.

The Group's financial derivatives – predominantly interest rate swaps – are marked to market at each balance sheet date. At 31 December 2018 they represented a net liability of only £5.1 million (2017: £6.2 million).

DISTRIBUTIONS TO SHAREHOLDERS

In April 2018, a final dividend for 2017 of 4.3 pence per share was paid totalling £17.5 million. In September, an interim dividend for 2018 of 2.2 pence per share was paid at a cost of £9.0 million. The final dividend for 2018 is proposed to be 4.7 pence per share, totalling £19.1 million. This represents a full year distribution of 6.9 pence per share, an increase of 8.7% over the prior year, and which was covered 1.9 times by EPRA earnings per share.

HISTORY OF AVERAGE COST OF DEBT
(%)



John Whiteley
Chief Financial Officer

Corporate, social and environmental responsibility

Managing our business with sustainability in mind

2018 HIGHLIGHTS

15.9%
(2017: 9.3%)
REDUCTION IN CARBON EMISSIONS
Further reduction in carbon emissions across our like-for-like managed portfolio

71%
RECYCLING
Proportion of recycling across all UK-managed assets.

43
CSR EVENTS
The number of corporate, social and environmental responsibility events which took place across the Group.

100%
SUSTAINABILITY AWARENESS
All CLS staff completed sustainability awareness training to support the business strategy

100%
EPC
All UK properties fully compliant with Energy Performance Certificate regulation.

546,800 kWh
(2017: 490,400 kWh)
RENEWABLE AND LOW-CARBON GENERATION
Total on-site renewable and low-carbon electricity generation (3% of electricity usage).

96%
RENEWABLE ENERGY
Virtually all electricity procured from energy markets comes from a renewable, low carbon and natural renewable certified source.

95%
(2017: 90%)
COMMUNITY INVESTMENT
The percentage of our staff who gave at least one working day to support local communities and charities.

CORPORATE OBJECTIVE PERFORMANCE AGAINST TARGETS

Objectives	2018 Achievement
Reduce carbon emissions by 5%, year-on-year in the like-for-like managed portfolio	Achieved
Recycle at least 70% of all UK waste collected from the managed like-for-like portfolio	Achieved
Install smart metering across all major assets in Germany	Ongoing
Ensure all investment properties maintain an EPC rating of D or greater	Achieved
Ensure the majority of employees participate in a community event in 2018	Achieved
Promote health and wellbeing across our staff and tenants	Achieved
Generate 2.5% of the Group's managed like-for-like electricity usage from renewable and low-carbon sources by 2020	Above target: 3%

OUR STRATEGY

CLS Holdings operates in some of the most densely populated office urban landscapes in Western Europe. Faced with the challenges of growing urban populations and climate change, the case for improving the sustainability and resilience of our assets is clear.

Back in 2011, we set out six pledges (the Green Charter) to ensure that our business operations were managed and delivered sustainably and responsibly. Eight years on, sustainability is now an integral part of our business, and it is not purely related to the environment. Social aspects of sustainability are now key to our continued prosperity. Our strategy has evolved from our original approach and has been developed in accordance with Global Real Estate Sustainability Benchmarks (GRESB), taking account of the Sustainable Development Goals (SDGs) and aligning with the Task Force on Climate-related Financial Disclosures (TCFD).

OUR APPROACH

We strive to create a better environment and better opportunities for all our stakeholders. By actively managing our properties in-house we cultivate strong relationships with our tenants enabling us to influence and effect the positive changes that are vital in delivering a sustainable future.

Our approach is underpinned by our four pillars concept: People, Property, Planet and Profit. Each pillar is vital to our sustainable future. We adopt a closed-loop management of each pillar through our commit-measure-do-review process that is detailed in our sustainability report which is available on our website.

To ensure we are acting on our pledges, we have aligned them to the key pillars within our sustainability strategy. This allows us to link directly every activity within the business to a single pledge and to report to the Board on our progress.

EMPLOYEES

CULTURE

Our culture is entrepreneurial, professional, open and friendly. We have employees from 19 countries, which helps to foster a diverse, cosmopolitan environment with integrity and responsibility at the heart of our business. We have fewer than 100 employees looking after a property portfolio of £1.9 billion, and we recognise their importance to our success. Therefore, we ensure that we consult regularly with our employees through various channels to understand their needs and ensure our culture evolves with the business and modern working practices.

RECRUITMENT

Finding the right people is important to our long-term success. We believe having a diverse workforce is a source of competitive advantage. Therefore, we have developed policies and procedures which ensure our commitment to equal opportunity and diversity in employment. Our recruitment and interview policy follows this commitment and we ensure that it is fully understood by those recruiting. We seek to ensure that no employee or applicant is treated less favourably on the grounds of gender, marital status, race, colour, nationality, ethnicity, religion, disability or sexual orientation, nor is disadvantaged by conditions or requirements, including age limits, which cannot be justified objectively. Entry into, and progression within, the Group is solely determined by the job criteria, personal aptitude and competence.

Our recruitment and interview policy follows best practice in the employment of people with disabilities. Full and fair consideration is given to every application for employment from disabled people whose aptitude and skills can be used in the business, and to their training and career development. This includes, wherever possible, the retraining and retention of staff who become disabled during their employment. We are proud that we have been able to attract, motivate and retain high calibre employees, which, in turn, has benefited the performance of the Group.

Corporate, social and environmental responsibility (continued)

TRAINING AND DEVELOPMENT

All employees are actively encouraged to undertake training to achieve professional qualifications and to keep up to date with developments in their specialised areas. We ensure that those with direct reports undertake management training on areas such diversity, appraisals and performance. We also promote non-core training, such as foreign language skills, which, whilst not central to a particular role, will allow employees to broaden their skills base. As part of our knowledge sharing and personal development policy, we have set up internal workshops in which teams present on their specific role within the organisation, thereby developing employees' wider business knowledge and understanding of how the Group's activities inter-relate. We also encourage all members of staff to consider areas of wider professional development that may be of interest to other teams, such as changes to planning laws or data protection legislation and we organise seminars with the assistance of our network of external advisers.

ENGAGEMENT AND WELLBEING

We promote all aspects of employee engagement and promote an "open door" policy; we encourage all employees to share ideas and to get involved in challenging and developing our policies and practices. With a predominantly flat management structure we are able to ensure that all employees are informed of matters concerning their interests and the financial and economic factors affecting the business. In addition to the weekly team meetings that are held across the Group, our executive directors present our annual and half-yearly results to all employees, which is followed by a question and answer session. This is designed to give everyone an understanding of the business, and how their work contributes to the Group's performance.

We want to make sure everyone works towards the same goal. Every 12 months we undertake a performance review of each employee, setting their objectives for the forthcoming year and this is followed up by a six-monthly review. The individual objectives reflect the Group objectives set by the Chief Executive Officer, which in turn are based on the Group's Key Performance Indicators and sustainability targets contained in this report on pages 16,17 and 31. We have a dedicated Intranet which allows us to promote new policies, procedures, Group activities and employee events.

Engagement is also about understanding the needs of our employees. This enables us to create a better working environment which, in turn, drives performance, loyalty and success. In return, we reward our staff in a number of ways, including salary, discretionary bonuses, a cash loyalty award for those who have been with the Group for more than 2 years and a share incentive plan. We also recognise it is important to celebrate success and so ensure managers arrange appropriate events following completion of particular projects.

We seek the views of our employees through staff satisfaction surveys, conducted through a third party advisor so as to ensure anonymity. Our last survey was conducted in August 2016 and all employees were invited to take part. It covered a range of topics including: effectiveness, engagement, remuneration, development opportunities, respect and recognition and confidence in leaders. In response, a staff survey workshop, comprising representatives from across the Group and facilitated by an independent external advisor, was set up to distil the outcomes of the staff survey and to recommend changes to the way we work. Our objective for 2018 was to conclude on the implementation of the survey's main recommendations, which are now largely complete. The remaining task focuses on our culture and we will be undertaking an exercise to review our culture, vision and values during 2019.

We will follow up on the implementation of our actions with a staff survey in late 2019.

TRAINING AND DEVELOPMENT

151
days of training completed

£95,000
spent on training

£1,032
average spend per employee

1.5
days spent training per employee

REMUNERATION

Our overall remuneration and benefits package is designed to attract, motivate and retain employees. Our remuneration structure is simple, combining salary and benefits with an annual discretionary bonus and a long-term retention bonus based on the Group's performance over a two year period. In 2017 we added a share incentive plan, which is open to all UK employees and matches employee contributions at a ratio of 1:1. Take-up amongst UK employees is over 50%, which is above the average for this type of scheme and testament to its success. We have looked into how we can implement a similar structure across the rest of the Group and intend to implement similar schemes in Germany and Luxembourg during early 2019.

BUSINESS ETHICS

The Board recognises the importance of the Group's responsibilities as an ethical employer and views matters in which the Group interacts with the community both socially and economically as the responsibility of the whole Board. Following the enactment of the Bribery Act 2010, the Group implemented an anti-bribery policy which further demonstrated its commitment to business ethics. To ensure continued compliance with the Bribery Act 2010, training is given to all new employees, and an annual online compliance check is completed by all employees.

MODERN SLAVERY ACT 2015

The Modern Slavery Act 2015 requires any UK commercial organisation with a turnover of more than £36 million to prepare a statement setting out the steps taken during the financial year to ensure that slavery and human trafficking is not taking place in its business or in its supply chain. The Group's statement can be found on our website at www.clsholdings.com.

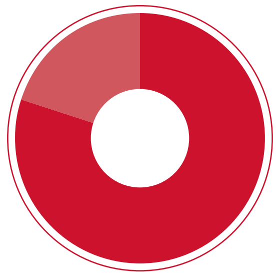
The Group upholds the highest standards of business ethics and undertook a review of its supply chain in 2018. The Board is confident that as a result of the Group's management and reporting structure, the Company is in compliance with this law.

PROMPT PAYMENT CODE

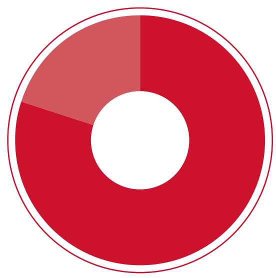
CLS is a signatory to the Prompt Payment Code ("PPC"), a voluntary scheme backed by the UK Government to set standards of best practice for payment of suppliers. The PPC requires all signatories to pay 95% of their undisputed invoices to suppliers within a 60 day period.

For the year ended 31 December 2018 CLS settled 97% of all undisputed invoices in the UK within 60 days, and 80% within 30 days, thus complying with the PPC. With effect from 1 January 2018, we have reported on the Group's UK companies' payment practices twice yearly in accordance with The Reporting on Payment Practices and Performance Regulations.

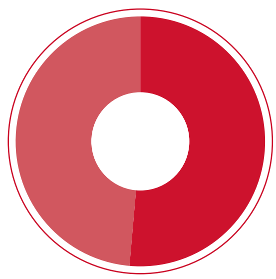
DIRECTORS GENDER RATIO
at 31 December 2018



SENIOR MANAGEMENT GENDER RATIO
at 31 December 2018



EMPLOYEE GENDER RATIO
at 31 December 2018



Corporate, social and environmental responsibility (continued)

HEALTH & SAFETY

It is a primary focus of the Board that the Group manages its activities so that the health and safety of its employees, customers, advisors and contractors and of the general public is not compromised. As part of this process the Group employs specialist accredited advisers to advise on all health and safety matters in each country in which we operate. The Group also operates a Health and Safety Committee, which covers issues related to the portfolio and its employees. Chaired by the Company Secretary, the committee comprises Facilities Managers, Property Managers, employees and advisors, and is responsible to the Chief Executive Officer. The Chief Executive Officer also attends Health and Safety Committee meetings. As shown below, all regions maintain and follow local health and safety policies and report issues to the Chief Executive Officer. This reporting process has worked effectively throughout the year and has ensured ongoing compliance with health and safety legislation.

UK

INDUSTRY REGULATION

The Group sets health and safety objectives covering our workforce and portfolio and is monitored by the Health and Safety Committee.

MANAGEMENT PROCESS

Each managed or occupied property within the UK portfolio undergoes an annual risk assessment against which our targets can be measured. Our targets address three key areas:

- Risk Management & Control
- Document Compliance
- Incidents

These areas are reviewed each quarter through the Health and Safety Committee and reported to the Board.

As at the date of this report, the percentage of risks which were under control were: 99.6% for Risk Management & Control, and 96.8% for Document Compliance. Our Accidents Frequency Rate in 2018 was 124 accidents per 100,000 people (National Accidents Frequency Rate: 930/100,000).

GERMANY

INDUSTRY REGULATION

All CLS buildings must comply with building permits and are regularly reviewed by local authorities to ensure compliance with building law. Facilities governed by special regulations are reviewed more frequently by an appropriate certified specialist.

MANAGEMENT PROCESS

Facilities (such as fire safety, electricity supply, ventilation, lifts, heating) are reviewed as required by law or business standard and at least once a year by authorised personnel. Reports and protocols are reviewed by the operational team.

We ensure that all scheduled reviews are conducted in accordance with local laws. Facilities managers provide comprehensive reports on a monthly basis to the operational team.

As at the date of this report, 95% of all identified risks were under control. All other risks are monitored on an ongoing basis and a health and safety management system is being implemented.

FRANCE

INDUSTRY REGULATION

All CLS buildings have to comply with the Code du travail (Labour Code), which defines our responsibilities.

Each tenant is in charge of its own security on its own premises in accordance with the security obligations of the building.

MANAGEMENT PROCESS

The building facilities (such as the electricity supply, and building and mechanical safety checks) are reviewed once or twice a year by a statutory controller. The reports of the statutory controller are reviewed by our operational team. This process is audited externally twice a year. The accountability remains with CLS France.

We have achieved 100% statutory compliance.

Every year, CLS France requires each tenant to provide their reports of statutory controls and an insurance certificate for their premises.

EMISSION PERFORMANCE COMPARISON: MANAGED PORTFOLIO – ABSOLUTE

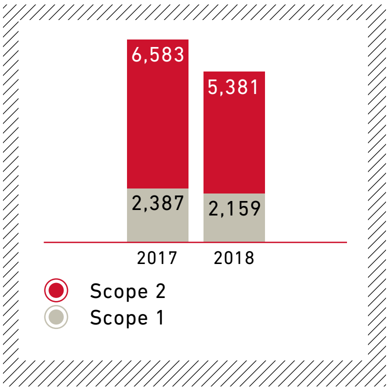
	2017	2018	Change	Greenhouse Gas Type
Gas (tonnes/CO_2e)	2,988	2,976	(12)	Scope 1
Electricity (tonnes/CO_2e)	7,961	7,430	(531)	Scope 2
CLS Group Total (tonnes/CO_2e)	10,949	10,406	(543)	Scope 1 & 2
CLS Group Total (tonnes/CO_2e/sqm)	0.0223	0.0212	(0.0011)	Scope 1&2/sqm

EMISSION PERFORMANCE COMPARISON: MANAGED PORTFOLIO – LIKE-FOR-LIKE

	2017	2018	Change	Greenhouse Gas Type
Gas (tonnes/CO_2e)	2,387	2,159	(228)	Scope 1
Electricity (tonnes/CO_2e)	6,583	5,381	(1,202)	Scope 2
CLS Group Total (tonnes/CO_2e)	8,970	7,540	(1,430)	Scope 1 & 2
CLS Group Total (tonnes/CO_2e/sqm)	0.0294	0.0247	(0.0047)	Scope 1&2/sqm

GROUP WIDE LIKE-FOR-LIKE CARBON EMISSIONS (2016 TO 2018)

Due to decarbonisation of the national grid in the UK there has been a reduction in our absolute Scope 1&2 emissions across the Group. The net effect of our reduction in both energy and decarbonisation has resulted in a 15.9% reduction on our like-for-like carbon emission



Find out more – download our full sustainability report from our website **www.clsholdings.com**

Our 2018 strategic report, from IFC to page 35, has been reviewed and approved by the Board of Directors on 7 March 2019.

David Fuller BA FCIS
Company Secretary

Great West House, London
Refurbished in 2018

Corporate governance

In this section:

Chairman's introduction

Driving performance through culture

Henry Klotz,
Executive Chairman

We believe in the importance of good corporate governance as a key driver to building a strong business that delivers sustainable value to shareholders. We recognise that through an effective structure of controls, which define authority and accountability throughout the Group, we can manage risks appropriately whilst still promoting effective and entrepreneurial leadership and ensuring a successful and innovative business. This, we believe, has been the key to our long-term success.

Q. What has the Board focused on during the year?

We have taken a number of key outcomes from the 2017 external board evaluation, which we wanted to focus on in 2018. We have held Board meetings and been on property tours in each of the countries in which we operate. We wanted the Board to engage with our French and German employees to understand better some of the challenges they face in managing our assets. It also gave the Board an opportunity to engage with tenants to understand how they perceive our performance as their landlord, and their feedback was very positive.

We also focused on succession planning whilst ensuring stability and continuation of expertise. The Board, assisted by the Nominations Committee, had a full discussion on the steps required to align further the composition of the Board with the UK Corporate Governance Code.

Q. What role does the Board play in setting the culture of the business?

We know that one of our biggest asset is our people, and so we recognise the need to have the right culture in place to ensure we continue to generate success. We have a relatively flat structure underpinned by a belief that constructive feedback allows employees not only to voice concerns, but also give praise where we do things well. The Board monitors areas such as employee turnover, exit interview feedback and employee surveys to ensure employees have a say in setting our culture.

Q. What were the key issues identified by the 2018 Board evaluation?

The evaluation recognised the strength of the management team and the quality of information the Board received. Nevertheless, I noted that there was still more to do on refreshing the Board's composition. The evaluation highlighted the importance of continuing with our meetings in France and Germany to understand better opportunities and risks within the portfolio, and to see first-hand how our teams operate and gain a valuable insight of the views of our tenants.

The evaluation also recognised the need to develop relationships with employees, which will be a key focus in 2019.

Q. What engagement has the Board had with smaller shareholders and wider stakeholders during the year?

Whilst some commentators believe the AGM is an event that should be removed from the corporate calendar, we have seen a greater number of smaller shareholders attend this event where we present to them the Company's strategy and performance. There was an open forum where small shareholders could question all members of the Board, which I felt was a good opportunity for the Board to engage with smaller shareholders.

As you will see from our Corporate, Social and Environmental Responsibility report, we have engaged with a wide range of stakeholders with the aim of creating excellent working relationships and affiliations with organisations in the areas in which we invest. I think it is very important for the Group to give its time, effort and financial assistance in building these relationships with stakeholders and I encourage all members of staff to participate.

Q. John Whiteley is retiring in 2019. What succession plans do you have in place?

We have a succession plan for the executive directors and in this instance we appointed an independent executive search firm to undertake the search for a successor. This included a diverse pool of internal and external candidates who were put through a thorough selection and interview process in order to appoint the best person for the role. We expect to conclude the process shortly.

Q. What are your priorities for the year ahead?

The evaluation gave us some insight into our priorities for 2019, against the introduction of the new UK Corporate Governance Code.

We will undertake a project looking at our culture, vision and values, which we recognise is an important tool in a successful and progressive modern workplace. It is something our employees asked us to do and so we look forward to this galvanising and motivating all of our employees to deliver and improve on our success.

We will also be introducing a Workforce Advisory Panel, chaired by Elizabeth Edwards, to formalise the way in which we seek employee feedback. The Panel will report directly to the Board through Elizabeth. I look forward to the outcome of its first meetings later in the year.

We will also initiate our search for an independent Non-Executive Director to will succeed Malcolm Cooper.

Henry Klotz
Executive Chairman
7 March 2019

BOARD SKILLS AND EXPERIENCE

Financial management

80%

HR issues

50%

International markets

90%

Property

100%

Risk management

90%

Board of Directors

The right skills and experience to deliver our strategy

1. HENRY KLOTZ
Executive Chairman

Appointment as a Director:
2 May 2008
10 years 7 months

Former roles: CEO (to January 2011)
Executive Vice Chairman (to March 2016)

Qualifications: Engineer – Economist

Experience: Joined in 1999 to manage the Swedish operation. Established the German division and focused on securing new business for the Group. Non-Executive Director of Catena AB, a Nasdaq Stockholm-quoted real estate company in which CLS holds 10.6% of the issued shares

2. FREDRIK WIDLUND
Chief Executive Officer

Appointment as a Director:
3 November 2014
4 years 1 month

Former roles: Global Commercial Leader, GE Capital International. Regional CEO, GE's European Leasing businesses. Managing Director, GE Capital Real Estate. CFO, GE Capital Equipment Finance. Various positions with Royal Dutch Shell

Qualifications: Degree in Business Administration, Stockholm University

Experience : Business leadership, property and finance experience in global organisations. Trustee of Morden College

3. JOHN WHITELEY
Chief Financial Officer

Appointment as a Director:
27 November 2009
9 years 1 month

Former roles: Finance Officer, Doughty Hanson & Co Real Estate. FD, Great Portland Estates. Auditor, Ernst & Young

Qualifications: Fellow, Institute of Chartered Accountants in England and Wales.
Degree in Accounting and Business Finance, Manchester University

Experience : Finance and commercial experience in the real estate sector. Member, Finance Committee, British Property Federation

7. CHRISTOPHER JARVIS
Independent Non-Executive Director
Chairman, Remuneration Committee
Member, Audit Committee

Appointment as a Director:
25 November 2008
10 years 1 month

Former roles: Owner, Jarvis & Partners real estate consultancy. Partner, HRO Group. MD, Richard Ellis Germany

Qualifications: Chartered Surveyor
Masters in Land Economy,
Cambridge University

Experience: Advising on all property-related matters, from debt financing to asset acquisitions, primarily in the German market

8. ANNA SEELEY
Non-Executive Vice Chairman
Member, Nomination Committee

Appointment as a Director:
11 May 2015
3 years 7 months

Former roles: Director, Skansen Group Limited. Property-related roles in General Electric and BT Group. Group Property Director, CLS Holdings plc

Qualifications: Degree in Property Valuation and Finance Chartered Surveyor

Experience: 20+ years of property industry and business experience

9. BENGT MORTSTEDT
Non-Executive Director
Founding Shareholder

Appointment as a Director:
7 March 2017
1 years 9 months

Former roles: Director, CLS Holdings plc (1992–2010). Former Junior District Court Judge in Sweden

Qualifications: Degree in Law,
Stockholm University

Experience: European property market and Group business. Developed and runs hotels in St Vincent & Grenadines, West Indies

4. STEN MORTSTEDT
Executive Director
Founding Shareholder
Chairman, Nomination Committee

Appointment as a Director:
14 March 1994
24 years 9 months

Former roles: Executive Chairman (to March 2016)

Qualifications: Entrepreneur

Experience: Founded CLS in 1987; listing on London Stock Exchange main market, 1994. MD, Citadellet AB (listed on Stockholm Stock Exchange, 1981). Banker, Svenska Handelsbanken, Stockholm. Chairman of the investment vehicle for the Sten and Karin Mortstedt Family and Charity Trust

5. ELIZABETH EDWARDS
Independent Non-Executive Director
Member, Audit Committee and Nomination Committee

Appointment as a Director:
13 May 2014
4 years 7 months

Former roles: Head, Property Lending, Landesbank Berlin. Senior positions with National Australia Bank, Berlin Hyp and Westdeutsche Immobilienban. Management Consultant, PwC

Qualifications: Chartered Surveyor, Degree in Estate Management, South Bank University. Fellow, Royal Institution of Chartered Surveyors

Experience: Banking (primarily property-related). Trustee, Salvation Army International Trust. Member, Association of Property Lenders. Past Master, the Worshipful Company of Chartered Surveyors

6. MALCOLM COOPER
Senior Independent Non-Executive Director
Chairman, Audit Committee
Member, Remuneration Committee

Appointment as a Director:
22 May 2007
11 years 7 months

Former roles: Project Director then Group Tax and Treasury Director, National Grid plc. Director, Corporate Finance, Lattice Group plc. Financial roles with BG Group plc. Arthur Andersen Consulting

Qualifications: Degree in Pure Mathematics, Warwick University. Fellow, Chartered Institute of Certified Accountants. Fellow, Association of Corporate Treasurers

Experience: Corporate finance, accounting and tax with global corporates. Independent NED and Audit Committee chair, Morgan Sindall plc. SID, MORHomes plc. Member of Audit Committee of Local Pensions Partnership Ltd

10. LENNART STEN
Independent Non-Executive Director
Member, Remuneration Committee and Nomination Committee

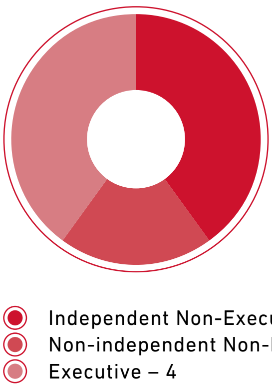
Appointment as a Director:
1 August 2014
4 years 4 months

Former roles: CEO, GE Capital Real Estate Europe. President, GE Real Estate Nordic. CEO Fabege AB. General Counsel, GE Capital Equipment Finances AB. Partner, Baker & McKenzie, Stockholm

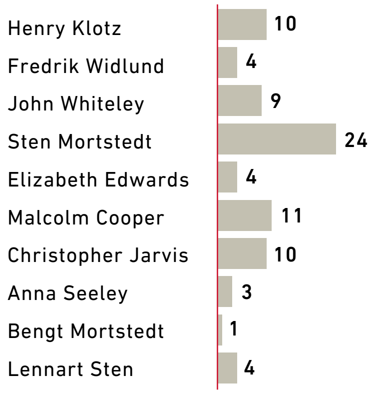
Qualifications: Degree in Law, Stockholm University

Experience: International property industry. Founder and CEO of Svenska Handelsfastigheter. Board member: Bonnier Fastigheter, Klara Bo AB, Interogo SA; Chairman, Swedish Property Federation

COMPOSITION AND SIZE OF THE BOARD



LENGTH OF TENURE OF THE BOARD (years)



Leadership
Board Statements

Requirement	Board Statement	Further information
Compliance with the Code	The principal corporate governance rules which applied to the Company in the year under review were those set out in the UK Corporate Governance Code published by the Financial Reporting Council ("FRC") in April 2016 (the "Code"), the UK Financial Conduct Authority ("FCA") Listing Rules and the FCA's Disclosure Guidance and Transparency Rules. The Board fully supports the principles of good governance as set out in the Code, which is publicly available on the FRC's website (www.frc.org.uk), and its application of the Main Principles are set out on pages 42 to 60. Save as identified and explained in this report, the Board considers that throughout 2018 it complied with the provisions of the Code.	Page 38 to 60
Going Concern basis	The Directors continue to adopt the going concern basis in preparing the Annual Report and Accounts.	Page 77
Viability Statement	The Directors confirm that they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment.	Page 52
Robust Assessment of the principal risks facing the Group	The Board has carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity.	Pages 18 and 19
Annual review of systems of risk management and internal control	The Board confirms that it has reviewed the effectiveness of the Company's risk management systems and internal controls and found them to be appropriate for the Group.	Pages 51 and 52
Fair, balanced and understandable	The Directors consider that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.	Page 79
Modern Slavery Statement	The Board has implemented a Modern Slavery Policy which we have communicated to all staff. The Board is confident that as a result of the Group's management and reporting structure, there are no such practices taking place.	Page 33 and our website
Health and Safety	The Board recognises that the control of all health and safety matters arising from our activities is an essential feature of our operations and ensures it meets its civil and statutory obligations.	Page 34

THE BOARD
The Board's composition and responsibilities are set out in a formal schedule of matters specifically reserved to it for decisions.

The Board is assisted by the Audit, Remuneration and Nomination Committees, the terms of reference for which can be obtained from the Company Secretary or our website.

GOVERNANCE FRAMEWORK

The Board
HENRY KLOTZ (EXECUTIVE CHAIRMAN)
3 other Executive Directors
4 Independent Non-Executive Directors
2 other Non-Executive Directors
Ensuring the Company's growth and shareholder value

Audit Committee
3 Independent Non-Executive Directors
Monitors the arrangements for corporate reporting, risk management and internal controls
Maintains a direct relationship with the Auditor

For more information on our cost drivers see **pages 56-60**

Nomination Committee
2 Independent Non-Executive Directors
1 Executive Director
1 Non-Executive Director
Monitors and evaluates the Board's skills and experience to ensure full Board discussion

For more information on our cost drivers see **pages 54-55**

Remuneration Committee
3 Independent Non-Executive Directors
Develops the Company's policies on executive remuneration and sets the remuneration packages of individual Executive Directors

For more information on our cost drivers see **pages 61-74**

Executive Committee
Reviews the daily running of the Group's business

Disclosure Committee
Monitors inside information and close periods

Financial Investment Committee
Analyses financial investment opportunities and reviews investment portfolios

Asset Management Committee
Reviews the Group's property investments in each country

Health & Safety Committee
Reviews and moderates the Group's policy and best practices for Health and Safety

The implementation of Board decisions and the day-to-day operations of the Group are delegated to the Executive Directors.

DIVISION OF RESPONSIBILITIES

The responsibilities of the Executive Chairman, who is responsible for the overall strategy of the Group, the Non-Executive Vice Chairman who supports the Executive Chairman, and the Chief Executive Officer, who is responsible for implementing the strategy and for the day-to-day running of the Group, are clearly divided. A written statement of the division of these responsibilities is reviewed and approved by the Board each year.

The Company does not comply with provision A.3.1 of the Code, as the Executive Chairman was not independent on appointment. There have been no significant changes to the commitments of the Executive Chairman during the year.

NON-EXECUTIVE DIRECTORS

A formal meeting of the Non-Executives Directors took place during the year, without the Executive Directors or the Executive Chairman present, at which a thorough review of the performance of the Executive Chairman took place. It was considered that the way in which the Board operated had improved, led by changes to the agendas and structure of meetings made by the Executive Chairman.

As highlighted by this year's external board evaluation, the Board was satisfied with the experience, expertise and performance of each Board member; they continue to add significant value to the operation of the Company through their combined knowledge and experience, and exercise objectivity in decision-making and proper control of the Company's business.

Leadership (continued)

INSURANCE

The Company has arranged insurance cover for its directors and officers, as set out in the Directors' Report on page 77.

CONFLICTS OF INTEREST

The Company's Articles of Association contain procedures to deal with Directors' conflicts of interest. The Board considers that these have operated effectively during the year.

ROLES AND RESPONSIBILITIES OF THE DIRECTORS

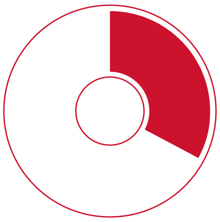
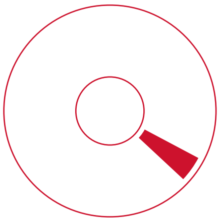
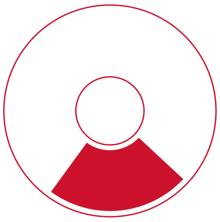
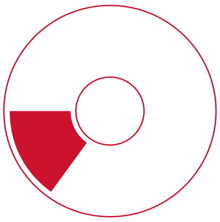
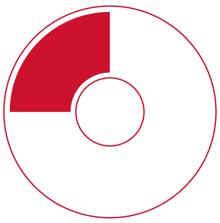
The Board's composition and responsibilities are set out in a formal schedule of matters specifically reserved to it for decisions. Matters reserved for Board decisions include identifying strategic long-term objectives, approving the annual Group budget, and approving substantial property transactions and investment decisions over £5 million.

The implementation of Board decisions and the day-to-day operations of the Group are delegated to the Executive Directors.

Role	Name	Responsibility
Executive Chairman	Henry Klotz	Proposing the overall strategy of the Group and ensuring the effective running of the Board
Non-Executive Vice Chairman	Anna Seeley	Supporting the Executive Chairman with developing Group strategy and managing the effective running of the Board
Chief Executive Officer	Fredrik Widlund	Implementing Group strategy and the day-to-day running of the Group
Chief Financial Officer	John Whiteley	Implementing Group strategy in relation to and ensuring compliance with all financial matters
Executive Director	Sten Mortstedt	Supporting the Executive Chairman with proposing the overall Group strategy
Senior Independent Director	Malcolm Cooper[1]	Providing a channel of communication for shareholders who do not wish to approach the Executive Chairman, Executive Vice Chairman or Chief Executive Officer Leading the Non-Executive Directors, and providing feedback to the Executive Chairman on his performance
Non-Executive Directors	Elizabeth Edwards[1] Christopher Jarvis[1] Lennart Sten[1] Bengt Mortstedt	Providing independent oversight, objectively challenging the Executive Directors in Board discussions and decision making

1 Determined by the Board to be independent in accordance with Code provision B.1.1.

BOARD ACTIVITY

Topic	Key activities	Key priorities
STRATEGIC 	1. Reviewed the strategic aims of the Group and proposed action plan for growth over the medium to long-term. 2. Discussed macroeconomic events and how they may impact the Group e.g. Brexit, EU and global political and financial uncertainty. 3. Portfolio review update and action plan discussion.	1. Focus on high yielding properties or portfolios in our key locations. 2. Ensure risks are adequately managed and monitored such that the Group can react to a change in circumstance. 3. Implement the findings of the portfolio review.
PEOPLE AND CULTURE 	1. Reports from HR regarding diversity, turnover and head count. Identifying themes and discussion as to ways to improve culture. 2. Monitored implementation of the results of staff survey. 3. Discussed the impact of the changes to the UK Corporate Governance Code relating to culture.	1. Implement all key initiatives that staff survey identified. Focus on non-UK share schemes for employees. 2. Undertake vision and values project to reinforce corporate goals, objectives and culture. 3. Implement framework to enhance workforce engagement.
FINANCIAL 	1. Approved annual operating budget and its monitoring against key performance metrics at each meeting. 2. Ensured key risks and uncertainties were appropriate and regularly reviewed. 3. Discussed internal controls and risk management systems. 4. Approved financial statements. 5. Continual review of all finance, tax and treasury matters, to ensure they are in line with Group strategy.	1. Review Group's Treasury strategy. 2. Monitor the Group's cost of debt and increase flexibility. 3. Implement and upgrade a number of key systems to provide management information to monitor budgets more effectively. 4. Focus on cost control and restraint to ensure continued low administration costs.
GOVERNANCE 	1. Reviewed Board composition and the independence of Mr Cooper and Mr Jarvis, having served more than 9 years. 2. Undertook internal Board evaluation. 3. Updated governance topics and impact on the Group e.g. changes to the UK Corporate Governance Code and wider stakeholder engagement . 4. Succession planning and independent process for appointment of CFO.	1. Focus on Board composition and alignment of shareholders' interests. 2. Implement findings of the report. 3. Implement changes to governance structures to comply with provisions of the new UK Corporate Governance Code. 4. Conclude CFO appointment.
PROPERTY AND OPERATIONS 	1. Reviewed and discussed strategic review for all properties within the portfolio, taking decisions as to business plan for each to deliver long-term action plan. 2 Discussed individual acquisitions and disposals against the Group's investment criteria. 3. Upgraded the Group's IT infrastructure and capabilities. 4. Reviewed feedback from customer surveys.	1. Focus on portfolio meeting business plan. 2. Review further property purchases and mitigate risks within the portfolio. 3. Drive IT initiatives across the Group. 4. Respond to feedback from customer surveys to improve our offering and meet their needs.

Leadership (continued)

ATTENDANCE TABLE

	Board attendance	No. of meetings	Audit Committee attendance	No. of meetings	Remuneration Committee attendance	No. of meetings	Nomination Committee attendance	No. of meetings
Henry Klotz	5	5	–	–	–	–	–	–
Anna Seeley	5	5	–	–	–	–	1	1
Fredrik Widlund	5	5	–	–	–	–	–	–
John Whiteley	5	5	–	–	–	–	–	–
Sten Morstedt	5	5	–	–	–	–	1	1
Malcolm Cooper	5	5	4	4	3	3	–	–
Lennart Sten	5	5	–	–	3	3	1	1
Elizabeth Edwards	5	5	4	4	–	–	1	1
Christopher Jarvis	5	5	4	4	3	3	–	–
Bengt Mortstedt	5	5	–	–	–	–	–	–

In addition to attending Board meetings, senior management meet regularly to discuss management issues relating to the Group both formally and informally.

Board activity

The Board met five times during the year. Key strategic and operational items were discussed at each meeting, and it received presentations from various external parties during the year.

The Board had a strategy meeting to review and monitor progress against our strategy and the wider risk environment affecting the Group.

February

Approvals
Updated Group Strategy document

Key agenda items
Report on geopolitical and macro-economic impact
Board Evaluation report and discussion
Report from Remuneration and Audit Committees

Presentations
CEO presentation on updated growth strategy and key targets

March

Approvals
Approval of the 2017 Annual Report and Accounts and associated responsibility statements
Approval of the going concern and viability statements

Key agenda items
Report from Audit Committee on the 2017 Audit, principal risks and uncertainties and internal controls
Report from Remuneration Committee on the KPI review and targets for 2018

Presentations
UK valuation presentations from Cushman & Wakefield

ENSURING THE RIGHT CULTURE

CLS's culture and the role of the Board

The Board recognises the need to establish the correct culture, values and ethics to ensure good standards of behaviour carries through the Group. In order to understand how the culture of the Group evolves, feedback mechanisms have traditionally been through informal groups or workshops. In its discussions this year, and in light of the new UK Corporate Governance Code, we will formalise our procedures to ensure we receive direct feedback via a Workforce Advisory Panel. The Board also wishes to undertake a wider project on its vision and values, with the workforce, which it believes will strengthen its culture and therefore overall performance.

THE BOARD IN ACTION

The Board recognised the importance of seeing first hand the challenges and opportunities faced by its teams in France and Germany, whilst also meeting and speaking to customers and employees to understand their views on our product and our working environment. This feedback provided invaluable insight which the Board were able to consider when discussing strategic and cultural matters affecting the Group. The feedback from our customers and employees on the Board's visibility were very positive.

May

Key agenda items
Executive Reports
Portfolio acquisitions and disposal proposals

Presentations
Paris property tour and customer engagement

August

Approvals
Approval of the Half-Yearly Financial Report
Approval of the going concern statement

Key agenda items
Report from Remuneration and Audit Committees
Half-Yearly Financial Report
Succession planning

Presentations
French valuation presentation from JLL
German valuation presentation from Cushman and Wakefield

November

Approvals
Approval of the 2019 Budgets and Forecasts
Review of Internal Controls and Risk Management

Key agenda items
Report on the Non-Executive Directors' Meeting
Report from Audit and Nominations Committees
2019 Budget and 2020–2022 Forecasts
IT strategy update
Principal Business Risks Review & Internal Controls and Risk Management
Independence review of Mr Cooper and Mr Jarvis

Presentations
Hamburg property tour and customer engagement

Effectiveness

INDEPENDENCE

Provision B.1.2 of the Code recommends, for FTSE 350 companies, at least half the Board, excluding the chairman, should comprise independent non-executive directors.

At the year end, the Board comprised four Executive Directors, four independent Non-Executive Directors and two other Non-Executive Directors. The Company was not compliant, therefore, with provision B.1.2. However, the Board considers that having a mix of Non-Executive Directors who are either "independent" as defined by the Code, or have an in-depth knowledge of the Company, provides better oversight and governance than having predominantly independent non-executive directors.

Of the independent Non-Executive directors, Mr Cooper and Mr Jarvis have served on the Board for more than nine years. In light of provision B.1.2 the Board undertook a rigorous review as to whether it considered them to remain independent. The discussion focused on Mr Cooper's current non-executive directorships, one of which as Chairman of the Audit Committee of a FTSE small-cap company, and Mr Jarvis's full time role with Jarvis and Partners, together with the amount of time dedicated to their roles as non-executive directors and their contributions to the Board in discussions generally. The Board was satisfied that they maintained the necessary levels of independence in addition to the Code's independence criteria and they continued to remain independent.

INFORMATION, SUPPORT AND DEVELOPMENT

Board members are sent board packs in advance of each Board and Committee meeting, and senior executives attend Board meetings to present and discuss their areas of speciality. In making commercial assessments, the Directors review detailed plans, including financial viability reports which, amongst other things, detail the return on equity and the likely impact on the income statement, cash flows and gearing.

Directors are able to obtain independent professional advice at the Company's expense and have access to the services of the Company Secretary. They are given appropriate training and assistance on appointment to the Board and later, if requested.

The Company offers all Directors the opportunity to update their skills and knowledge, and familiarity with the Company, in order to fulfil their role on the Board. In addition, meetings with senior managers within the Company have been arranged to further familiarise Non-Executive Directors with the Company. As part of every new Board member's induction, we encourage them to meet with the Head of Group Property in each of the UK, France and Germany so as to understand the portfolio. Board members also attended site visits to properties.

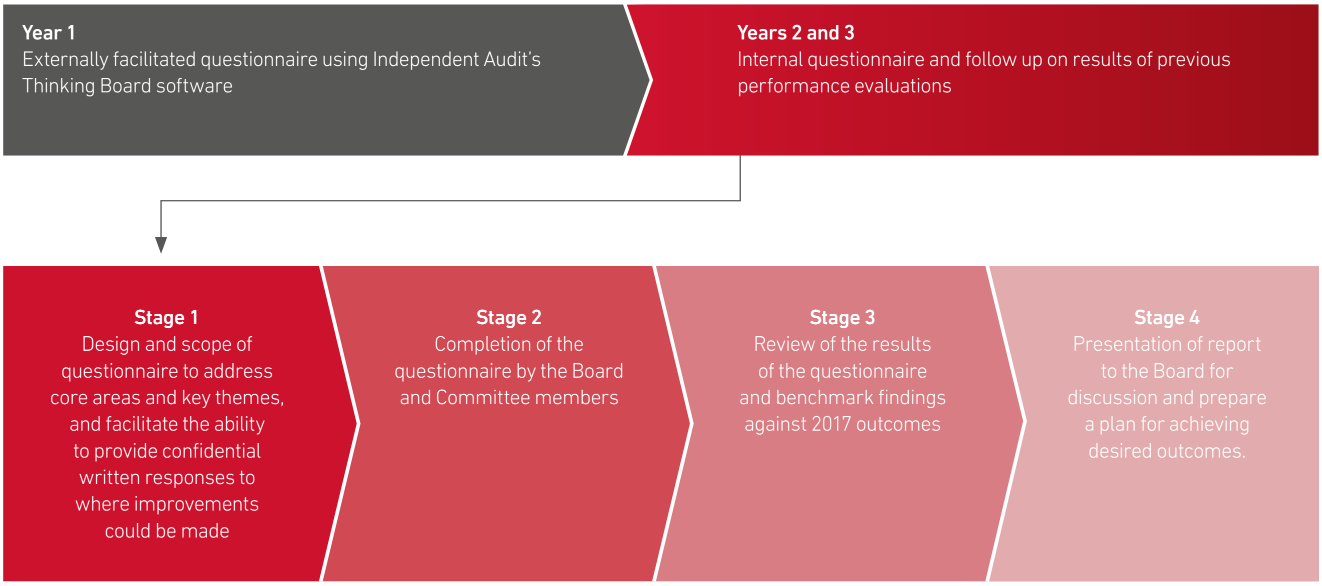
PERFORMANCE EVALUATION

The Board undertakes a formal review of its performance and that of its Committees each financial year, and is required to conduct an external evaluation once every three years. In accordance with provision B.6.2 of the Code, the Board undertook its first externally facilitated board performance evaluation in November 2018 and will undertake its next externally facilitated evaluation in 2020. The internal evaluation was based on a questionnaire which addressed the following key areas: strategy, leadership and accountability, effectiveness of the board, board culture, information flows to the board and risk management. Each Committee also undertakes a review of its performance, effectiveness and accountability. The performance of individual directors is carried out through individual meetings with the Executive Chairman during the year. The findings and outcomes of the evaluation are set out below.

The Board reviewed the 2017 outcomes that it focussed on in 2018, It concluded they had largely been achieved:

- Reviewed the succession planning process.
- developed a programme for board members to spend more time in the business, with visits to key properties and team meetings in Paris and Hamburg.
- increased the time spent on strategy and culture with dedicated meetings and reports.
- improved meeting discipline with no papers being "talked through".
- set aside more time to discuss how the non-executive directors can add value by direct discussions with executives.

BOARD PERFORMANCE EVALUATION CYCLE (2018 YEAR 2)



Findings	Outcomes
An understanding of the need to refresh Board membership.	Review the succession planning process to ensure that it is more transparent and consultative.
The Board should do more to keep up to date with topical issues and have more insight into what is happening in the day-to-day business.	Extend the programme of site visits in order that Board members spend more time in the business and with key stakeholders. Arrange presentations to provide more in-depth information on topical issues.
The Board could improve on assessing and discussing culture, and meet more regularly with employees.	Increase time spent discussing organisational culture and receiving feedback from the workforce.
Board culture continues to be positive. There could be more regular contact with executive directors away from the business environment.	Setting aside time for the non-executive directors and executives directors to discuss how best the Board can add value to the business.

Effectiveness (continued)

RE-ELECTION

Under the Articles of Association, which can be amended by a special resolution of the shareholders, the Board has the power to appoint directors and, where notice is given signed by all the other directors, to remove a director from office.

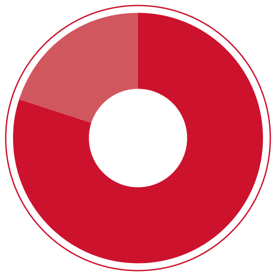
All directors are subject to election by shareholders at the first Annual General Meeting following their appointment. In accordance with the Code's requirements for FTSE 350 companies, all directors must seek re-election by shareholders annually. Accordingly, all directors will be seeking re-election at the forthcoming AGM. Their details are contained on the Board of Directors' section on pages 40 and 41.

The terms and conditions of appointment of non-executive directors are set out in a letter of appointment, which provides for their removal in certain circumstances, including under s168 Companies Act 2006. Their letters of appointment also set out what is expected of them and the time expected for them to meet their commitment. Non-executive directors are expected to serve two three-year terms, although the Board may invite them to serve for an additional period, subject to a rigorous review. The terms of appointment of the Non-Executive Directors can be obtained on request to the Company Secretary and will be available for inspection 15 minutes before, and during, the AGM.

DIVERSITY

The Group's policy is set out in the Nomination Committee Report, which can be found on pages 54 and 55.

BOARD GENDER DIVERSTY



Men – 8
Women – 2

APPOINTMENTS TO THE BOARD

As recommended by the Code, the Board has a Nomination Committee to lead the process for Board appointments and make recommendations to the Board.

The Nomination Committee report can be found on pages 54 and 55.

Accountability

The Board is required to present a fair, balanced and understandable assessment of the Company's position and prospects, which are explained in this Annual Report.

THE AUDIT COMMITTEE

The Board has established an Audit Committee to monitor the formal and transparent arrangements for its corporate reporting and its risk management and internal control principles, and for maintaining an appropriate relationship with the Auditor. Its report can be found on pages 56 to 60.

RISK MANAGEMENT AND INTERNAL CONTROL

The Company has internal control and risk management systems in place for its financial reporting process and the preparation of the Group accounts. It considers these systems appropriate for the size, diversity and complexity of the Group's operations, and they are monitored, reviewed and recommended by the Audit Committee in the first instance, and then approved by the Board as a whole on an annual basis.

It is the Company's aim to manage risk and to control its business and financial affairs economically, efficiently and effectively so as to be able to exploit profitable business opportunities in a disciplined way, avoid or mitigate risks that can cause loss, reputational damage or business failure, and enhance resilience to external events. The Board acknowledges that the Directors are responsible for the Group's systems of internal control and risk management and has established procedures which are designed to provide reasonable assurance against material misstatement or loss. These procedures have operated for the entire financial year and up to the date of signing the Annual Report and Accounts.

The Directors recognise that such systems can only provide a reasonable and not absolute assurance that there has been no material misstatement or loss. The Board regularly reviews the management structure, HR policies and reward systems so as to ensure that management is aligned to the Group's values and supports the risk management and internal control systems.

The key elements of the process by which the systems of internal control and risk management are monitored are set out below.

INTERNAL CONTROLS

The Company has an established framework for internal controls, which is regularly reviewed and monitored by the executive management and the Audit Committee, who update the Board on its effectiveness during the year.

The Board is responsible for the Company's overall strategy, for approving budgets and major investment decisions, and for determining the financial structure of the Group.

The Audit Committee assists the Board in the discharge of its duties regarding the Group's financial reports and provides a direct link between the Board and the Auditor through regular meetings. The Board has requested that the Audit Committee reviews the content of the Annual Report and Accounts and advises it on whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy. Following its 2018 review, it recommended the same to the Board.

There is an established organisational structure which has clearly defined lines of reporting and responsibility. The Group has in place control processes in relation to all aspects of its financial dealings, such as the authorisation of banking transactions, capital expenditure and treasury investment decisions.

The Group has a comprehensive system for budgeting and planning whereby quarterly and annual budgets are prepared, monitored and reported to the Board at Board meetings. Three-yearly rolling cash flow forecasts are updated and distributed to the Executive Directors on a weekly basis to ensure the Group has sufficient cash resources for the short and medium-term.

Set out on pages 6 to 35 is the Strategic Report, describing the Group's operations and the strategy which it employs to maximise returns and minimise risks.

RISKS

In line with the most recent guidance on risk and internal controls from the FRC, the risks which the Group faces are reviewed and monitored in Board and executive meetings throughout the financial year.

Each business area operates a process to ensure that key risks are identified, evaluated, managed and reviewed appropriately. This process is also applied at Board level to major business decisions such as property acquisitions and disposals, and significant strategy changes. Furthermore, a monthly property activity portfolio update is circulated to the Board which identifies key business risks, developments and opportunities. Additional risk management processes, which include health and safety and sustainability risk management, are employed within the businesses and updates are reported to the Board at each meeting.

Accountability (continued)

Whilst there were no areas of weakness or failings identified by the Audit Committee and reported to the Board during their review of the Group's risk management and internal controls, management has set up a rolling programme to review and test the principal areas of internal control risks throughout the Group. The results are reported to the Audit Committee and reviewed by the Board during the year.

In accordance with provision C.2.1 of the Code, and as supported above, the Directors confirm that they have carried out a robust assessment of the principal risks facing the Group, including those which would threaten its business model, future performance, solvency or liquidity. The Group's principal risks and uncertainties, the areas which they impact and how they are mitigated are described on pages 18 and 19.

VIABILITY STATEMENT

In accordance with provision C.2.2 of the Code, the Board has assessed the prospects of the Group over a longer period than the twelve months that has in practice been the focus of the Going Concern statement.

The Board concluded that the Viability Statement should correspond with the way in which the Group models its forecasts. The Group produces a budget for the current year and forecasts over a further three years reflecting the Group's business model, strategy, and risk appetite, including the potential impact of Brexit. The Board considers this period to be the most appropriate as it provides a detailed and realistic forecast. The forecast is built up from a tenant level and considers the Group's weighted average lease length of 5.3 years (2017: 5.4 years) and the maturity profile of the Group's debt of 3.5 years (2017: 3.6 years).

The forecasts provide a comprehensive view of the Group's entire operation, covering:

- cash flows
- financial resources
- long-term funding
- capital expenditure commitments
- administration costs

Cash flow forecasts are updated weekly and circulated to the Board. The budget and three year forecasts are set in November and updated in May and August to take into account changes to assumptions and are reviewed by the Board.

As explained in the Audit Committee report, the forecasts are also stress-tested to reflect our principal risks, ensuring the Group has sufficient resources in severe cases, such as a steep property downturn, the loss of key tenants and significant rises in the costs of medium-term funding.

As a result, the Directors can confirm that they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment.

REMUNERATION

The Board has a Remuneration Committee which develops the Company's policies on executive remuneration and sets the remuneration packages of individual Executive Directors.

Its report can be found on pages 61 to 74.

Relationship with shareholders

The Company values its dialogue with both institutional and private investors. The Board's primary contact with institutional shareholders is through the Chief Executive Officer and the Chief Financial Officer, along with the Head of Group Property, who have regular meetings with institutional shareholders. They also undertake analyst presentations following the Company's half-yearly and annual financial results. They are supported by a financial relations adviser and two corporate brokers, all of whom are in regular contact with institutional and retail shareholders, and with analysts. A report of feedback from each institutional investor meeting is prepared by the broker who organised it, and a report of unattributed feedback from analysts on analyst presentations is prepared by the financial relations advisor. All such reports and coverage of the Company by analysts are circulated to the Board. Consequently, all Directors develop an understanding of the views of institutional shareholders and commentators.

Analyst presentations following the announcement of half-yearly and annual financial results are webcast and available on the Company's website.

The Group issues its annual financial report to each of its shareholders. In accordance with the UK company disclosure regulations the Group does not distribute its half-yearly financial report to shareholders but makes it available on its website. Copies are available on request.

All financial reports and press releases are also included on the Group's website at www.clsholdings.com.

All shareholders have at least 20 working days' notice of the Annual General Meeting at which all Directors who are available to attend are introduced and are available for questions. All shareholders are welcome to attend the Company's Annual General Meeting and to arrange individual meetings by appointment. The views received at such meetings are fed back to the Board.

PROXY VOTING

The proxy forms for the Annual General Meeting which was held in 2018 included a "vote withheld" box. Details of the proxies lodged for this meeting were announced to the London Stock Exchange and are on the Company's website at www.clsholdings.com. Shareholders may also choose to register their vote by electronic proxy on the Company's website.

At the 2019 Annual General Meeting, the Company will comply with the Listing Rules in respect of the voting requirements for the re-election of independent Directors where a Company has a controlling shareholder.

JOINT VENTURE AND ASSOCIATES

This Corporate Governance report applies to the Company and its subsidiaries. It does not include associates. The Group has no joint ventures.

KEY SHAREHOLDER EVENTS

MARCH
- **25**
  Institutional investor meetings
- Analyst presentation

APRIL
- **7**
  Institutional investor meetings
- Annual General Meeting

AUGUST
- **22**
  Institutional investor meetings
- Analyst presentation

Nomination Committee Report

STEN MORTSTEDT
Executive Director and Chairman of the Nomination Committee

DEAR SHAREHOLDER

The Nomination Committee is responsible for ensuring that the Board comprises individuals with the most appropriate balance of experience, skills and knowledge to help develop and support the Company strategy. The Committee makes recommendations to the Board on the nomination, selection and succession of directors and senior executives.

The Committee discusses how this overarching principle:

— links the Company's strategy to future changes on the Board
— evaluates Board effectiveness, the performance of individual directors and how the results affect the rest of the Board's work
— ensures a comprehensive induction, training and continuing development of directors
— oversees the executive pipeline and talent development

MEMBERSHIP OF THE COMMITTEE

The Committee's membership remains unchanged, and comprises one executive director, and three non-executive directors, two of whom are independent non-executive directors. The Company Secretary acts as secretary to the Committee.

The Committee notes that it is not compliant with Code provision B.2.1 but considers that because the Group has a Controlling Shareholder, its composition reflects the need for independent oversight whilst recognising the shareholder base.

The Committee's terms of reference are available on the Company's website at www.clsholdings.com

COMPOSITION AND SIZE OF THE BOARD

Having reduced the size of the Board in response to shareholder feedback, the Committee will now focus on its composition and balance of skills and experience.

COMMITTEE MEMBERS' ATTENDANCE DURING THE YEAR ENDED 31 DECEMBER 2018

Sten Mortstedt (Chairman)	1/1
Anna Seeley	1/1
Elizabeth Edwards	1/1
Lennart Sten	1/1

The independence of both Mr Cooper and Mr Jarvis, having served for over 10 years, was reviewed by the Committee and discussed with the whole Board. The Committee recognises that, despite the "comply and explain" principal, some institutional shareholders and proxy advisers consider the Code's provision on the independence criteria as a rule. Following a rigorous review, the Committee recommended to the Board that Mr Cooper and Mr Jarvis remained independent in character and judgement such that there are no relationships or circumstances which would affect, or could appear to affect, their judgement, which they supported. The Board considered that their contribution in Board meetings, time commitment and other significant roles outside of CLS warrant this conclusion.

Nevertheless, as part of its ongoing review of Board composition, the Committee discussed how a managed process could be implemented in order to refresh Board non-executive membership in light of the discussions with Mr Cooper and the search for his successor.

SUCCESSION PLANNING

While identifying and developing talent across the Group remains primarily the responsibility of management, we have a duty to secure the long-term success of the Group. The Committee received updates from the Executive Chairman and Chief Executive Officer in relation to succession planning, both at Board and senior executive level to ensure there is a good quality pipeline in place and to challenge the executive management team's actions to enhance the pipeline.

Following the announcement that John Whiteley would retire in 2019, the Committee underwent a process to recruit a new Chief Financial Officer. Following the appointment of an external executive search consultancy, a long list was reviewed by the Chief Executive Officer, which produced a shortlist of candidates for a three stage interview process. The final candidates were interviewed by the Committee, together with the Chief Executive Officer. The Board expects to conclude the process shortly and announce a successor.

DIVERSITY

The Board's policy is that the selection of new Board members should be based on the best individual for the role and that the Board's composition should have an appropriate balance of skills and diversity to meet the requirements of the business. Whilst the Nomination Committee continues not to set specific representation targets for women at Board level (currently 20%), on recruitment, our policy is that we expect our search consultants to ensure, where possible, there is a diverse selection of candidates. We consider this to mean more than just gender, but also ethnically diverse candidates; a policy that we encourage throughout the Group when recruiting. We recognise that there are significant benefits of diversity, including age, gender, core skills, experience and educational and professional background, which we continue to consider whenever changes to the Board's composition are considered.

The Committee has noted the recommendation in the Hampton-Alexander Review for a new voluntary target of one-third of all Board members in FTSE 350 companies by 2020 to be women and the wider diversity targets proposed in the Parker Review. Our recruitment decisions throughout the organisation are driven by the need to ensure the longer-term success of the Company, by appointing the person that most closely fulfils the requirements for the position, regardless of their background or gender.

BOARD VALUATION PROCESS

The Committee noted the outcomes of the 2018 Board evaluation process, which highlighted the positive steps that had been taken to address succession planning and communication with employees below Board level, highlighted by the visits to Paris and Hamburg and meetings with their respective teams.

PERFORMANCE OF THE COMMITTEE

The Nomination Committee undertakes a review of its performance each year. During 2018 the Committee's review was internally facilitated and found that it performed effectively but it would ensure that it met more frequently and in a formal capacity.

On behalf of the Board

Sten Mortstedt
Chairman
Nomination Committee
7 March 2019

Nomination Committee at a glance

Committee objectives

— Review size, structure and composition of the Board.
— Consider succession planning for directors and other senior managers.
— Review leadership needs of the organisation.
— Identify and nominate suitable candidates for the approval of the Board.

What we have done

— Undertaken a review of Board composition and established a managed process for implementation.
— Initiated the process for recruiting a new CFO.
— Received updates from the executive team on succession planning.
— Reviewed and recommended to the Board the continuing independence of Mr Cooper and Mr Jarvis.

Committee focus

— Monitoring of the correct skills and balance of experience of the Board.
— Ensuring diversity agenda is addressed when making Board appointments.

Audit Committee Report

MALCOLM COOPER
Senior independent Non-Executive Director and Chairman of the Audit Committee

DEAR SHAREHOLDER

The Audit Committee reviews and reports to the Board on financial reporting matters, including the valuation assumptions for the property portfolio, internal control and risk management. It also reviews the performance, independence, effectiveness and annual remuneration of the auditor.

COMPOSITION OF THE COMMITTEE

For the purposes of the Code, Mr Cooper, Ms Edwards and Mr Jarvis are regarded as having recent and relevant accounting and financial experience, and all have sector competence.

The Chief Executive Officer, Chief Financial Officer, certain senior management and the Auditor are normally invited to attend the meetings. At each meeting there is a standing agenda item facilitating the opportunity for the Auditor to meet without management present. The Company Secretary acts as secretary to the Committee.

The Committee's terms of reference are available on the Company's website at www.clsholdings.com

PERFORMANCE OF THE COMMITTEE

The Audit Committee undertakes a review of its performance each year. During 2018 the Committee's review was internally facilitated and found that the Committee performed effectively.

AUDIT COMMITTEE REGULAR ATTENDEES

(by invitation)

Georgina Robb	Deloitte LLP, Auditor
Fredrik Widlund	Chief Executive Officer
John Whiteley	Chief Financial Officer
David Fuller	Company Secretary and Secretary to the Committee
Cushman & Wakefield	Independent external valuer (UK and Germany)
Jones Lang LaSalle	Independent external valuer (France)

COMMITTEE MEMBERS' ATTENDANCE DURING THE YEAR ENDED 31 DECEMBER 2018

Malcolm Cooper (Chairman)	4/4
Chris Jarvis	4/4
Elizabeth Edwards	4/4

HOW THE COMMITTEE SPENDS ITS TIME

- Reports from the Auditor – 37%
- Governance – 31%
- Financial reporting – 24%
- Meeting with valuers – 8%

Audit Committee at a glance

Committee objective

- Monitor the integrity of the financial statements, and assist the Board with other formal announcements.
- Review the narrative reporting to ensure, taken as a whole, it is fair, balanced and understandable.
- Review and monitor internal controls and risk management systems.
- Approve the statements concerning principal risks, viability, internal controls and risk management.
- Review the adequacy of whistleblowing and anti-fraud arrangements.
- Maintain a relationship with the Auditor including the setting of fees.

What we have done

- Reviewed the year end and half-year results ensuring that they were fair, balanced and understandable.
- Met with each of the Group's valuers and asked searching questions on the markets in which we operate.
- Received reports and presentations from the Auditor at the full and half-year in respect of:
  - property valuations
  - significant accounting, reporting and judgemental matters, including going concern
  - principal risks and uncertainties.
- Undertook a review of the internal controls and risk management and requested regular updates from management during the year.
- Undertook a review of whistleblowing arrangements to ensure they remained appropriate for the Group.
- Together with input from the Auditor, confirmed that there was no requirement for an internal audit function given the size and complexity of the Group.
- Received the Auditor's planning report, reviewed the year end audit scope and materiality, and agreed 2018 audit fee.
- Reviewed and challenged the viability statement to ensure that it remained relevant to the Group and in line with its budgetary forecasting model.
- Received and discussed implementation of key changes brought about by new UK Corporate Governance Code.

Committee focus

- Together with the Auditor, ensured the valuations and assumptions surrounding the valuations were appropriate.
- Monitoring of Principal Risks and Uncertainties to ensure they remain relevant and appropriate.
- Reviewed and monitored internal controls and risk management systems.
- Maintained good communication links with the Auditor with a focus on the key issues outlined in each audit report during the year.
- Monitored impact of relevant changes to corporate governance.

Audit Committee Report (continued)

SIGNIFICANT FINANCIAL JUDGEMENTS

Issues	How they were addressed
Property valuations	The Committee met with the Group's valuers, Cushman and Wakefield (UK and Germany), and Jones Lang LaSalle (France) to which it invited the whole Board, and discussed the methodology used for the six monthly valuations of the Group's properties. Independently, the Auditor also met with the Group's valuers using real estate specialists and provided the Committee with a summary of their review contained within their report at the half-year and year end. The Committee was satisfied with the explanations in relation to the portfolio and its associated key risks, such as specific local market updates, vacancy levels and rental demand, which management were addressing.
Significant transactions	The Committee also focused on the management's accounting treatment for significant transactions during the year, such as the £28.7 million sale of First Camp to a Norwegian campsite operator. Key financial judgements that were considered related to the classification of the First Camp investment as a discontinued operation and its remeasurement to fair value less cost to sell which resulted in a loss being recognised. The treatments were discussed with the Auditor and the Committee agreed with the accounting treatment.
Accounting for other financial investments	In conjunction with the Auditor, the Committee reviewed how management accounted for its other financial investments, principally in corporate bonds and in the shares in Catena AB. The Committee agreed with the approach taken by management and the value of these investments.
Brexit	The Committee continued to look at the impact of Brexit on the principal risks and uncertainties and provided the full Board with the Committee's views in their wider discussion as set out in the Strategic Review.
Management override of controls	The Committee assessed the framework for financial controls to be regularly reviewed by management and brought to the Committee for review. The Auditor confirmed to the Committee that there were defined lines of reporting and control processes in place within the Group such that the Auditor and Committee were satisfied that the risk was adequately mitigated.

Viability and Going Concern

Viability Statement
The Committee remained of the view that the statement should correspond with the way in which the Group models its forecasts, being the current year plus a further three years. The way in which the model was stress tested for changes in the Group's operating environment were considered appropriate and clearly supported the statement. Further details are contained in the Corporate Governance Report on page 52.

Going Concern
Whilst a matter for the whole Board (see page 77), the Committee reviews the Group's financial forecasts, debt maturity forecasts and associated sensitivity analysis. With supporting reviews from the Auditor, and a recommendation from management, the Committee remained of the view that the going concern basis was appropriate.

KEY AREAS DISCUSSED AND REVIEWED BY THE COMMITTEE

EXTERNAL AUDIT PROCESS

The Committee reviewed the external audit strategy and the findings of the Auditor from the review of the Half-Yearly Financial Report and from the audit of the Annual Report and Accounts. It reviewed the letters of representation at both the full year and half year and recommended the same to the Board for signature. Additionally, the Committee met with the Auditor prior to the final sign-off meeting for this Annual Report and Accounts in order to receive the report on the external audit process. The Committee is pleased to report that at both the half year and the full year, after reviewing the significant risks identified by the Auditor and how management had mitigated them, there was no issue of a material nature which needed to be addressed or brought to the Board's attention.

During the year the Committee were notified by the Financial Reporting Council (FRC) that their Audit Quality Review Team (AQR) were intending to review the work Deloitte LLP performed in conducting the audit of The Group's 2017 results.

The Committee discussed the results of this review and were pleased to note that the limited improvements required had been implemented as part of Deloitte's audit work for 2018.

The Committee assessed the effectiveness of the full-year and half-year external audit processes, the performance of the Auditor and, separately, sought the views of senior management. The Committee concluded that the external audit strategy had been met, and that key accounting and auditing judgments had been identified by the Auditor. The Committee concluded that Deloitte LLP had undertaken the external audit in line with the audit plan, and it was agreed to recommend to the Board that Deloitte LLP be asked to continue as the Auditor at the forthcoming AGM. The Committee discussed with management and subsequently agreed the statutory audit fee and the scope of the statutory audit.

PRINCIPAL RISKS

The Committee introduced a standing discussion item in relation to monitoring and reviewing the Group's principal business risks, and challenging management on the appropriateness of those risks and how they were to be mitigated, details of which can be found on pages 18 and 19.

A key risk that the Committee discussed was the financial impact of Brexit, which it considered could have an effect on the property sector and the ability to obtain financing, and how the Group would mitigate its effects. Whilst these risks were considered to have a relatively high impact, the likelihood that they would occur remained low.

The Group also reassessed the impact of the development risk within the portfolio, which, since the sale of Vauxhall Square, had reduced significantly.

INTERNAL CONTROL AND RISK MANAGEMENT

The Committee has a further standing discussion item in relation to monitoring and reviewing all of the Group's material controls and risk management systems, with a continuous control testing and reporting programme throughout the organisation. Further details are contained in the Corporate Governance Report on pages 51 and 52.

INTERNAL AUDIT

Following its annual review, the Committee recommended to the Board not to establish an internal audit function, due to the existence of current controls and review systems, and as the Company was neither of sufficient size nor complexity to warrant it. This line of reasoning was consistent with other property companies of a similar size. This view was supported by the Auditor. The Committee notes the changes to the UK Corporate Governance Code and has asked management to report on how internal assurance is achieved. The absence of an internal audit function will continue to be reviewed annually.

In order to seek assurance that internal controls are rigorously tested, management have set up a rolling programme to review and test the principal areas of risk, with the results reported to the Committee and subsequently reviewed by the Board. This ongoing review has not highlighted any matters of concern.

Audit Committee Report (continued)

NON-AUDIT FEES

The Committee is also responsible for monitoring the compliance of the Company's policy on the provision of non-audit services by the Auditor, so as to safeguard the Auditor's objectivity and independence.

The Committee has implemented a policy so as to ensure it complies with the EU Audit Regulations.

The policy categorises non-audit services as either:

- excluded (as defined by the EU Audit Regulations); or
- permitted, without approval from the Committee, but subject to approval by the Chief Financial Officer of up to 10% of the annual aggregate Group audit fee; or
- permitted with approval from the Committee.

The non-audit services provided by the Auditor during the year were £52,000 (2017: £53,207), the majority of which related to the auditors work on the Interim Review.

All such fees were approved by the Committee or Chief Financial Officer in accordance with the policy.

As set out above, the Committee considers that it has complied with the provision of The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014.

We note the technical breach of independence referred to in the Auditors Report on page 82 and concur with their view that the services provided did not impact upon their integrity, objectivity and independence given the minimal level of fees incurred and inconsequential impact on the financial statements.

ANTI-BRIBERY AND WHISTLEBLOWING

The Company has implemented an anti-bribery policy and provided training for all staff. An additional annual compliance check is undertaken for all staff. The Committee reviewed as being appropriate the whistleblowing policy, under which employees may report suspicion of fraud, financial irregularity, modern slavery or other malpractice. No reports of any such matters were received during the year.

On behalf of the Board

Malcolm Cooper
Chairman
Audit Committee
7 March 2019

Remuneration report
Annual statement

CHRISTOPHER JARVIS
Independent Non-Executive Director and Chairman of the Remuneration Committee

DEAR SHAREHOLDER

As the Chairman of the Remuneration Committee, I am pleased to present the report of the Board covering our Directors' Remuneration Policy (the 'Policy'), approved by shareholders in April 2017, and the implementation of it for the year ended 31 December 2018.

In this year's report, we set out the following:

- The Annual Statement by the Remuneration Committee Chairman
- The Annual Report on Remuneration setting out in more detail payments and awards made to the Directors under the Remuneration Policy and the link between Company performance and remuneration for the 2018 financial year.

2018 COMPANY PERFORMANCE AND REMUNERATION OUTCOMES

As set out in the Chairman's Statement, the Company has performed well during 2018 in terms of improving EPRA NAV and reducing vacancy throughout the portfolio.

The PIP Plan was applied without any adjustment or exercise of discretion in respect of 2018 as the results of the PIP scheme were deemed by the Remuneration Committee to have been a fair and accurate reflection of business performance. In respect of the fourth year of the PIP plan 2015-2017, no discretion or adjustment was applied.

The Committee considers the Company's pay structure to be clear and consistent with the market, and aims to align the interests of the Executive Directors, senior managers and employees with those of shareholders. In line with this commitment to link executive remuneration to annual corporate performance and long-term shareholder returns, the performance levels resulted in lower pay outcomes in 2018.

The main remuneration outcomes are given below:

- Executive salaries will be increased in 2019 in line with the UK employee average rate of 3.0%
- The Nomination Committee has recommended to the Executive Directors that Non-Executive fees should rise with base fees increasing to £45,000 and the Senior Independent Director and Committee Chair fee increasing to £10,000. The increases are being made following external feedback to the Nomination Committee that the current level of fees do not support the recruitment and retention of Non-Executive Directors with the necessary experience to advise and assist with establishing and monitoring the Group's strategic objectives. The new fee levels remain at or below the lower quartile of the FTSE250.
- As outlined above and in more detail in the Strategic Report, the Committee determined that four of the six Key Performance Indicators ('KPIs') achieved or exceeded the benchmark targets. The Absolute TSR KPI was below target and no bonus was paid. The Relative TSR KPI was below "on-target" performance but above the forfeiture threshold at which no bonus was paid, and therefore achieved the scheduled pro rata bonus outcome.
- The Committee reviewed the KPIs and considered them to be representative of Group performance. There has been no change of KPIs during the year.
- The Committee reviewed he KPI targets and weightings and concluded that for 2019 the Administration Cost Ratio targets would be amended to reflect the approved Group budget, which was commensurate with the growth of the Group. All remaining KPIs, their targets and weightings remain unchanged.

In our assessment, the overall remuneration payments for 2018 represent a fair and balanced outcome, and replicate remuneration outcomes throughout the wider employee workforce. As in previous years, the Annual Report on Remuneration and this Annual Statement are subject to an advisory shareholder vote at the 2019 AGM.

Remuneration report (continued)
Annual statement (continued)

Remuneration Committee at a glance

Committee objectives

- Determine and agree on the framework and levels for executive director remuneration whilst having regard to pay and employment conditions across the Group.
- Set the remuneration policy for the Group.
- Review the design of all share incentive plans and relevant performance-related pay schemes and approve related annual payments.
- Oversee any major changes in employee benefit structures.
- Ensure contractual terms on termination are fair and failure is not rewarded.

What we have done

- Undertaken a review of pay levels to ensure they are appropriate and fair across the Group.
- Reviewed the Remuneration Policy and the appropriateness of the current structure.
- Sought advice from our retained consultants PwC.
- Undertook an annual review of the appropriateness of the PIP KPIs and corresponding targets.

Our focus

- Ensure consistency of approach and fair pay conditions across the Group.
- Address simplification of Founding Shareholder remuneration for the next policy review.
- Finalise 2020 Remuneration Policy for shareholder consultation in late 2019.
- Ensure high quality remuneration advice and information to inform decisions.
- Ensure Company performance is appropriately reflected in any performance-related pay element of remuneration.
- Review the PIP KPIs and corresponding targets, on an annual basis.
- Receive updates from Head of HR in relation to developments in employee benefit structures.
- Ensure compliance with the 2018 UK Corporate Governance Code.

AREAS OF DISCUSSION

CHIEF FINANCIAL OFFICER

The Committee has discussed the remuneration outcomes resulting from Mr Whiteley's retirement, which will be in line with the current Policy and reported in the 2019 Remuneration Report.

We will work closely with the Nomination Committee on the remuneration of his successor, again, in accordance with the current Policy.

LONG-TERM INCENTIVE PLANS

The Committee noted shareholder feedback in relation to Element B, which indicated that awards based on a prior year's performance, was not considered to be aligned with a standard LTIP, despite having a three year vesting period and two year holding period. The Committee was advised by PwC that the scheme would be appropriate for the Group. The Committee will consult with shareholders later in 2019 with a view to introducing a industry standard LTIP, which will form part of the overall Remuneration Policy consultation for the period 2020-2023 that will be considered for approval at the 2020 AGM.

The Committee will continue to operate its approved Remuneration Policy for 2019, the final year of the three year cycle, and therefore shareholders will not be asked to vote on a revised policy at the 2019 AGM.

MEMBERSHIP

The Committee's membership is unchanged, comprising three independent non-executive directors.

During 2018, the Committee met five times and held a number of informal discussions with the executive directors, the Sten and Karin Mortstedt Family and Charity Trust and institutional funds.

COMMITTEE MEMBERS' ATTENDANCE DURING THE YEAR ENDED 31 DECEMBER 2018

Chris Jarvis (Chairman)	5/5
Malcolm Cooper	5/5
Lennart Sten	5/5

REMUNERATION COMMITTEE REGULAR ATTENDEES FOR PART (BY INVITATION)

David Fuller	Company Secretary and Secretary to the Committee

PERFORMANCE OF THE COMMITTEE

The Remuneration Committee undertakes a review of its performance each year. During 2018 the Committee undertook an internal review of its performance and found that the Committee continued to perform effectively.

Christopher Jarvis
Chairman
Remuneration Committee
7 March 2019

Remuneration report (continued)
Annual statement (continued)

HOW THE PIP SUPPORTS OUR REMUNERATION POLICY

Objective	Supporting principles
In order to ensure the achievement of the Company's strategic objectives, the executive directors need to be motivated and rewarded for the successful delivery of key annual objectives which, given the current instability in the property sector, is imperative to the future growth of the Company.	Annual assessment of performance allowing: — incorporation of a wider range of operational and strategic objectives; and — assistance in the management of any cyclicality in the business.
The requirement to provide a lock-in for the executive directors, given the recent changes to the Board structure which means their continued retention is key for the success and growth of the Company.	Retentive, as the sole condition once the deferred shares have been earned over the period of deferral is continued employment.
The alignment of the executives directors with shareholders through the build-up and retention of meaningful shareholdings in the Company.	The PIP supports the build-up and retention of meaningful shareholdings by the executive directors.
The need to ensure that the total compensation levels are competitive in the industry in which the Company competes for talent. The Committee is therefore mindful that the total remuneration opportunity for executive directors remains competitive compared to peers in the FTSE 250 real estate sector. The Committee review of the previous policy highlighted that there was a remuneration gap to the market. Therefore, the introduction of new equity elements under the PIP helped to ensure a more competitive market positioning, provided that the executive team delivers the annual performance objectives and that these lead to long-term sustainable performance.	The simplicity of the PIP maximises its value for a given incentive opportunity. This was also enhanced by Element B of the PIP which provided an additional maximum award of 100% of salary. The Committee chose to increase the incentive opportunity given its intention that under the Policy there would be no changes to the base salary, pension and benefits for the executive directors beyond the standard awards for all employees.
To enhance further the Company's corporate governance on remuneration.	The PIP is supportive of corporate governance and best practice because: — it is simple; — it is one of the alternative models suggested by the Investment Association's Executive Remuneration Working Group; — deferral of a proportion of annual bonus in shares supports the alignment of the interests of the executive directors and shareholders; — it supports the build-up of a long-term locked-in shareholding by the executive directors; and — it facilitates the use of malus and clawback by having a significant amount of the incentives earned deferred in shares and under the control of the Company after the determination of the bonus for a particular year.

Annual report on remuneration statement of implementation of remuneration policy in 2018

For the year ended 31 December 2018, the Group's policy on remuneration was implemented as set out below.

SINGLE TOTAL FIGURE FOR EXECUTIVE DIRECTORS' REMUNERATION (AUDITED INFORMATION)

The following table shows an analysis of remuneration in respect of qualifying services for the 2018 financial year for each executive director:

			Bonus[4]					
2018	**Salary £000**	**Taxable Benefits[6] £000**	**Cash £000**	**Deferred Shares £000**	**LTIP[5] £000**	**Pension £000**	**Other Fees £000**	**Total £000**
Henry Klotz	**400**	**24**	–	–	–	**7**	–	**431**
Fredrik Widlund[1]	**378**	**7**	**162**	**172**	**398**	–	–	**1,117**
John Whiteley[2]	**307**	**13**	**87**	**113**	**212**	–	–	**732**
Sten Mortstedt[3]	**317**	–	–	–	–	–	**450**	**767**

			Bonus					
2017	Salary £000	Taxable Benefits £000	Cash £000	Deferred Shares £000	LTIP £000	Pension £000	Other Fees £000	Total £000
Henry Klotz [7]	205	18	–	–	–	2	–	225
Fredrik Widlund	368	6	236	252	200	–	–	1,062
John Whiteley	289	12	126	164	106	9	–	706
Sten Mortstedt	308	–	–	–	–	–	650	958

1 Mr Widlund received total pension contributions of £34,398 (2017: £33,429). In accordance with the Policy, the entire amount was paid as salary supplement (this element of salary is not bonusable or pensionable).

2 Mr Whiteley received total pension contributions of £27,899 (2017:£27,113). In accordance with the Policy, £nil (2017: £9,038) was paid as pension contributions and the entire amount (2017: £18,075) was paid as salary supplement, which element of salary is not bonusable or pensionable.

3 Mr Mortstedt provided specific advice that was in addition to the duties under his contract of employment, which are his participation at CLS Holdings plc board meetings. The Committee has agreed the fees and is of the opinion that the market rate for the specific nature of the advice he provided was appropriate based on his experience and historical knowledge of the Group. The specific advice related to the corporate bond portfolio, investments and cash management; refinancing and borrowing; and specific property acquisitions and disposals.

4 The Bonus total comprises 50% of the Element A 2018 contribution into the Director's Plan Account and the award made of deferred shares in respect of Element B of the PIP (see below for details of calculations). The reason that only 50% of Element A is disclosed as Bonus is because the balance is deferred and at risk of forfeiture in respect of future years' performance and therefore under the Regulations is required to be disclosed on vesting. The award of deferred shares under Element B does not vest until three years after the date of grant and cannot be sold for a further 2 years. However, in accordance with the Regulations the value of these shares is shown in the Bonus column on the date of grant as there are no further performance conditions which have to be satisfied for the shares to vest. The value of the Element B award disclosed in the table has been calculated using the average market value of a share for the 30 day period to 31 December 2018 of 213.5 pence in accordance with the rules of the PIP.

5 The LTIP column value is the difference between the values calculated in (4) above in respect of the PIP Element A and the 2018 payment (see page 67 for details of calculation) and is the payment of part of the deferred performance-based element under the PIP. The date of payment will be on or around 25 March 2019. The value of the notional shares under Element A has been based on the average market value of a share for the 30 day period to 31 December 2018 of 213.5 pence in accordance with the rules of the PIP.

6 Taxable Benefits relate to the provision of private medical insurance.

7 Mr Klotz's contract was changed from 50% part-time to full-time following a review of the time commitment required for this role, with effect from 1 January 2018.

Remuneration report (continued)

Additional requirements in respect of the single total figure table (audited information) – 2018 payments in respect of the PIP

The Remuneration Committee determined the 2018 PIP contribution and forfeiture outcomes during 2018. A summary of the 2018 KPIs and their achievement is as follows:

KPI	Maximum Forfeiture	Bonus/ Forfeiture Threshold	On-Target Performance	Good Performance	Maximum Performance	2018 Achievement
Total Shareholder Return (absolute)	1%	3%	12%	14%	16%	-12.3%
Total Shareholder Return (relative)	Lower Quartile	(Linear)	Median	(Linear)	Upper Quartile	15th*
Vacancy Rate	10%	8%	5%	4%	3%	3.8%
Administration Cost Ratio (as % of Net Rental)	18.50%	17.50%	16.50%	15.50%	14.50%	16.0%
Personal Performance	2	2.5	4	4.5	5	(see below)**
Total Accounting Return	0%	3%	6%	7.5%	9%	10.8%

* Out of 26 companies which comprise the FTSE350 Real Estate Super Sector

** Personal Performance is a grading of the executive director by the Remuneration Committee in a range of 1–5 with 5 being the highest rating. For 2018, the CEO and CFO received ratings of 4.63 and 4.13, respectively. The CEO and CFO are assessed on an annual basis. They undertake an appraisals process which incorporates a scoring system whereby they are assessed by their line manager against each of the following areas: annual objectives, quality and knowledge of their work, innovation, teamwork, staff development and communication. For 2019, this will change to a 1-3 rating to bring it into line with the staff appraisal process for all employees.

	Key Objectives	Outcome
Fredrik Widlund	Implementation of Group Strategy.	Led strategy process to refocus the portfolio to deliver long-term sustainable growth.
	Implement business plan to review portfolio and reinvest in high-yielding properties.	Strategic objectives implemented through successful sales and acquisitions, and changing corporate structure.
	Keep vacancy within 5% range.	Group vacancy was 3.8%.
	Develop and strengthen organisational culture.	Integration of Metropolis Portfolio in Germany. Property transactions aligned with objectives. Implemented various initiatives to modernise and progress working practices and initiated a review of corporate culture, vision and values.
	Enhance Investor Relations.	Met with new and existing investors, modernised media coverage with videos and planned capital markets day.
John Whiteley	Meet agreed budget targets for income and expenditure.	Implemented new forecasting system to deliver advanced reporting.
	Successfully managed through detailed budget process and monitoring. Deliver high-quality reporting. Develop and motivate Finance team.	Undertook various group activities to build a strong team, reviewed structure and resourcing to ensure platform for growth.
	Focus on efficient operations.	Major IT review resulting in a restructuring to broaden levels of responsibility and develop a more comprehensive business support function.

ELEMENT A OF THE PIP

The following table sets out the maximum award under Element A of the PIP for 2018 which can be earned in respect of each KPI, expressed as a percentage of salary:

	Performance Breakdown (%)	
KPI	CEO	CFO
Absolute Total Shareholder Return	37.5	25.0
Relative Total Shareholder Return	22.5	15.0
Vacancy Rate	22.5	10.0
Administration Cost ratio (as % of Net Rental)	22.5	20.0
Personal Performance	15.0	10.0
Total Accounting Return	30.0	20.0
Maximum Bonus as a % of salary	150.0	100.0
Salary	£343,985	£278,995
Maximum Bonus	£515,978	£278,995

The following table sets out the calculation of the first award under Cycle 3 of Element A of the PIP:

	Performance Breakdown (£)	
KPI	CEO	CFO
Absolute Total Shareholder Return	–	–
Relative Total Shareholder Return	34,055	18,414
Vacancy Rate	70,517	24,551
Administration Cost ratio (as % of Net Rental)	67,749	51,531
Personal Performance	47,779	23,045
EPRA NAV Growth	103,195	55,799
2018 Total Bonus	323,295	173,340
Bonus as a % of Salary	94.0%	62.1%
Bonus Achieved as a % of Maximum Bonus	62.7%	62.1%

CYCLE 2

The following table sets out for Cycle 2 the PIP Accounts for the participants and shows the number of deferred notional shares which formed the opening balance at 1 January 2018, and their opening value, the fall in the value of the notional shares, and the payments which closed Cycle 2 in 2018:

	CEO	CFO
PIP Plan Accounts		
Number of Deferred Notional Shares brought forward	186,468	99,489
Value of Deferred Notional Shares brought forward[1]	£435,590	£232,408
Fall in Value of Deferred Notional Shares in 2018	£(37,481)	£(19,999)
Final Value of Deferred Notional Shares[2]	£398,109	£212,409
Less: 2018 Payment	£(398,109)	£(212,409)
Value of Deferred Notional Shares carried forward	–	–
Number of Deferred Notional Shares carried forward	–	–

1 The price used to calculate the opening value of shares was the mid-market value of a share for the 30 day period to 31 December 2017, which was 233.6 pence per share.
2 The price used to recalculate the final value of shares was the mid-market value of a share for the 30 day period to 31 December 2018, which was 213.5 pence per share.

Remuneration report (continued)

Additional requirements in respect of the single total figure table (audited information) 2018 payments in respect of the PIP

CYCLE 3

The following table sets out for Cycle 3 the PIP Accounts for the participants and shows:

— The element of the 2018 Payment which is disclosed in the Single Figure as Bonus. The reason that only 50% of Element A 2018 Company Contribution is disclosed as Bonus is because the balance is deferred and is at risk of forfeiture in respect of future years' performance and therefore under the Regulations is required to be disclosed on vesting:
— The value of the closing balance and the number of deferred notional shares which will form the opening balance in respect of 2019.

	CEO	CFO
PIP Plan Accounts		
Number of Deferred Notional Shares brought forward	–	–
Value of Deferred Notional Shares brought forward	–	–
2018 Bonus[2]	£323,295	£173,340
	£323,295	£173,340
Less: 2018 Payment	(£161,647)	(£86,670)
Value of Deferred Notional Shares carried forward	£161,648	£86,670
Number of Deferred Notional Shares carried forward[1]	75,713	40,594

Analysis of 2018 Payment		
Disclosed as Bonus in Single Figure Table[3]	£161,647	£86,670
Disclosed as LTIP in Single Figure Table[4]	£398,109	£212,409
2018 Payment	£559,756	£299,079

1 The price used to calculate the value of shares was the mid-market value of a share for the 30 day period to 31 December 2018, which was 213.5 pence per share.
2 The 2018 bonus performance and their level of satisfaction are set out above.
3. Comprising 50% of the 2018 Bonus.
4. Comprising the final payment from Cycle 2 of Element A of the PIP.

In the context of the operation of the PIP, the Deferred Notional Shares is a mechanism that allows the deferred cash element of the award to be linked to the share price. The Committee confirms that there is no intention to issue actual shares.

ELEMENT B OF THE PIP

In line with the approved Remuneration Policy, an award of deferred shares under Element B of the PIP based on the achievement of the 2018 KPIs will be granted as soon as practically possible after the announcement of the Company's 2018 results. Element A and Element B of the PIP are based on the same performance conditions and their level of satisfaction (see page 66 for details of the 2018 KPIs and their level of satisfaction). The Committee set the initial maximum Element B award for 2018 below the Policy maximum of 100% of salary.

	CEO	CFO
Salary	£343,985	£278,995
Maximum Element B award (% of salary) for 2018	80.0%	65.0%
KPIs achievement as % of maximum	62.7%	62.1%
Face value of Element B awards to be granted	£172,424	£112,671
Number of shares to be awarded	80,760	52,773

Shares earned under Element B are subject to a three-year vesting period during which the participant must remain employed by the Company and cannot be sold for five years from the date of award, irrespective of employment status. There are no further performance conditions. The number of shares to be awarded under Element B has been based on the average market value of a share for the 30-day period to 31 December 2018 of 213.5 pence in accordance with the rules of the PIP.

PENSION ENTITLEMENTS

The executive directors are entitled to participate in a defined contribution pension scheme.

As a result of the Lifetime Allowance Limit, no directors were participants of the scheme as at 31 December 2018 (2017: none).

The maximum Company contribution for all employees is 10% (2017: 10%). In accordance with the Policy, both Mr Whiteley and Mr Widlund received 10% as a salary supplement.

Henry Klotz is a deferred member of the scheme. On 1 August 2014, under the auto-enrolment process, Mr Klotz became a member of the statutory scheme operated by the Company whereby he contributes 3% of basic salary and the Company contributes 2%.

SINGLE TOTAL FIGURE FOR NON-EXECUTIVE DIRECTORS' REMUNERATION (AUDITED INFORMATION)

Non-executive directors do not participate in any of the Company's incentive arrangements nor do they receive any benefits other than reimbursement for reasonable travel expenses for attending Board meetings.

The following table sets out the fees received for 2018:

	Base Membership Fee £000		Other Committee Fees £000		Additional Fees £000		Taxable Benefits[6] £000		Total	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
Malcolm Cooper[1]	**30**	30	**18**	18	–	–	–	–	**48**	48
Elizabeth Edwards[2]	**30**	30	**10**	10	–	–	–	–	**40**	40
Christopher Jarvis[3]	**30**	30	**13**	13	–	–	**5**	8	**48**	51
Bengt Mortstedt	**30**	25	–	–	–	–	**24**	10	**54**	35
Anna Seeley[4]	**30**	30	**5**	5	–	–	**1**	2	**36**	37
Lennart Sten[5]	**30**	30	**10**	10	–	–	**8**	–	**48**	40

1 Mr Cooper received the following fees: Board membership £30,000; Senior Independent Director £5,000; Audit Committee Chairmanship £8,000; and Remuneration Committee membership £5,000.
2 Ms Edwards received the following fees: Board membership £30,000; Audit Committee membership £5,000; and, Nomination Committee Membership £5,000.
3 Mr Jarvis received the following fees: Board membership £30,000; Remuneration Committee Chairmanship £8,000; and Audit Committee membership £5,000.
4 Ms Seeley received the following fees: Board membership £30,000; and Nomination Committee Membership fee £5,000.
5 Mr Sten received the following fees: Board membership £30,000; Remuneration Committee membership £5,000; and Nomination Committee Membership 5,000.
6 In accordance with the Company's expenses policy, non-executive directors receive reimbursement for their reasonable expenses for attending Board meetings. In instances where those costs are treated by HMRC as taxable benefits, the Company also meets the associated tax cost to the non-executive directors through PAYE. Ms Edwards received taxable benefits of £379 (2017:£452), which being less than £500 is therefore not reported in the above table.

EXTERNAL APPOINTMENTS

Mr Klotz received additional fees which he retained of £15,953 (2017: £22,636) in respect of his role as non-executive director of Catena AB. Mr Widlund was appointed as a non-executive director of Morden College on 31 August 2018, for which no remuneration is paid. There were no other executive directors who served as non-executive directors of other companies during the year ended 31 December 2018.

PAYMENTS TO PAST DIRECTORS OR FOR LOSS OF OFFICE

There were no payments to past directors of the Company during the year, whether for loss of office or otherwise.

Remuneration report (continued)

Additional requirements in respect of the single total figure table (audited information) 2018 payments in respect of the PIP

DIRECTORS' INTERESTS IN SHARES

At 31 December 2018, the interests of the Directors in the ordinary shares of 2.5p each of the Company were:

Director	Unconditional Shares	Conditional PIP Element A Shares	Conditional PIP Element B Shares	SIP Shares (Partnership)	SIP Shares (Matching)	Total
Sten Mortstedt[1]	209,348,740	–	–	–	–	209,348,740
Henry Klotz	400,000	–	–	–	–	400,000
Fredrik Widlund[2]	227,490	75,713	234,580	1,309	1,309	540,401
John Whiteley[3]	140,000	40,594	151,238	1,309	1,309	334,450
Malcolm Cooper	40,500	–	–	–	–	40,500
Elizabeth Edwards	4,527	–	–	–	–	4,527
Christopher Jarvis	48,440	–	–	–	–	48,440
Bengt Mortstedt	26,572,550	–	–	–	–	26,572,550
Anna Seeley	–	–	–	–	–	–
Lennart Sten	28,500	–	–	–	–	28,500

1 Mr S Mortstedt's interest in shares is held in certain companies which are held in trust (see controlling shareholder note on page 76).
2 As at the date of this report: the SIP balance for Mr Widlund consists of: 1,436 Partnership Shares and 1,436 Matching Shares. As set out on page 68, 80,760 Conditional PIP Element B shares will be awarded on 7 March 2019.
3 As at the date of this report: the SIP balance for Mr Whiteley consists of: 1,436 Partnership Shares and 1,436 Matching Shares. As set out on page 68, 52,773 Conditional PIP Element B shares will be awarded on 7 March 2019.

The Committee has implemented a policy of minimum shareholdings for executive directors. It is expected that within five years of becoming an executive director, the Chief Executive Officer should build a holding with a value of at least 250% of salary, and the Executive Chairman and Chief Financial Officer at least 150%.

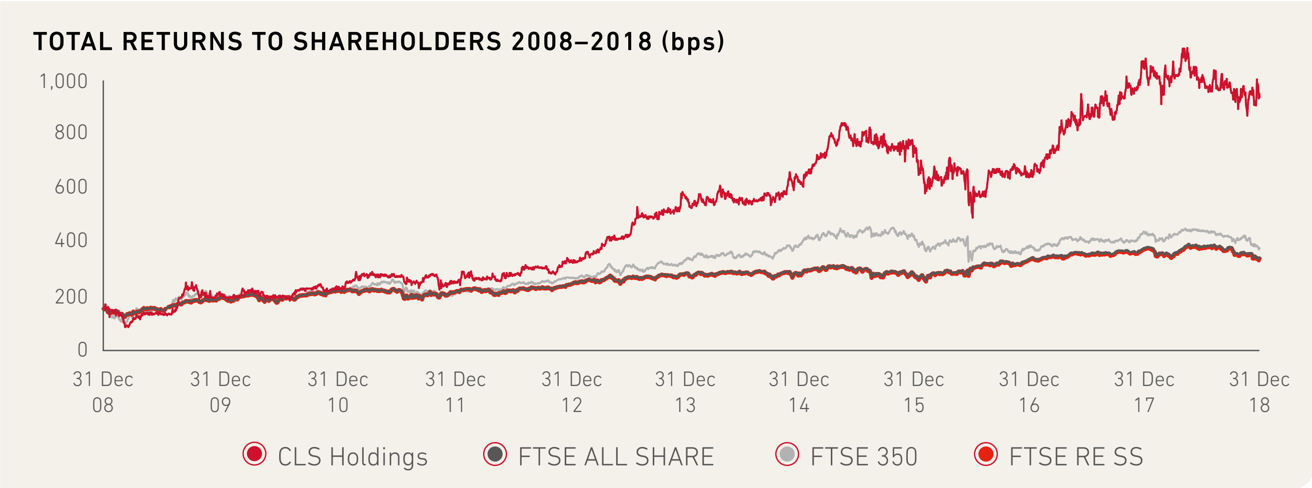
At the date of this report, the executive directors' beneficial and conditional shareholding (excluding Element A of the PIP) represented the following percentages of salary.

Henry Klotz: 214% (2017: 672%) – shareholding requirement met.
Fredrik Widlund: 339% (2017: 343%) – shareholding requirement met.
John Whiteley: 265% (2017: 266%) – shareholding requirement met.

The executive director, Sten Mortstedt, has an interest in shares which is substantially in excess of the minimum requirement.

TOTAL RETURNS TO SHAREHOLDERS 2009–2018 (UNAUDITED)

To comply with the Regulations, the Company's TSR performance is compared to the TSR performance of the FTSE All Share Index and the FTSE350 Real Estate Super sector over the same period. The Committee believes that these are the most appropriate as these are the indices and sector in which the Company has been included since listing.



Total remuneration for the Chief Executive Officer

	2010	2011	2012	2013	2014	2015	2016	2017	**2018**
CEO's total single figure (£000)	481	417	352	721	349	656	828	1,062	**1,117**
PIP contribution as % of maximum	100%	81.7%	83.5%	86.5%	89.0%	81.0%	76.0%	94.1%	**62.7%**

The Company has not operated an incentive plan other than the PIP over this period.

PERCENTAGE CHANGE IN REMUNERATION OF THE CHIEF EXECUTIVE OFFICER AND EMPLOYEES

The table below shows how the percentage change in the Chief Executive Officer's salary, benefits and bonus between 2017 and 2018 compares with the percentage change in each of those components of pay for employees.

	Salary			Taxable Benefits			Bonus		
	2018 £000	2017 £000	Percentage increase	**2018 £000**	2017 £000	Percentage Increase	**2018 £000**	2017 £000	Percentage Increase
CEO	**378**	368	2.7	**7**	6	16.7	**162**	236	(31.4)
Employees	**4,489**	3,853	16.5	**209**	192	8.9	**1,807**	1,925	(6.1)

The Group's pay review, taking effect from 1 January 2019, awarded a percentage increase in wages and salaries of 3% to UK and German employees, 2.6% to French employees and 2.8% to its Swedish employee, subject to role-specific industry benchmarks.

The 2018 employee bonus pool has been adjusted to reflect revised calculations.

The nature and level of benefits to employees in the year ended 31 December 2018 was broadly similar to those of the previous year.

RELATIVE IMPORTANCE OF THE SPEND ON PAY

	2018 £000	2017 £000	Percentage change
Remuneration paid to employees of the Group	**9,701**	8,036[2]	20.7
Distributions to shareholders	**26,481**	25,870	2.4
Group revenue[1]	**133,026**	120,300[2]	10.6

1 Representative of the Group's cash-based operations which exclude unrealised fair value movements.
2 Comparative restated to reflect the deduction of amounts attributable to discontinued operations.

Statement of implementation of remuneration policy in the following financial year

The Company's remuneration policy was approved at the AGM on 25 April 2017. The remuneration policy can be found on pages 51 to 60 of the 2016 annual report and its key components together with how it is to be implemented in 2019, are set out below:

Element	Policy and Operation for 2019
Base Salary	No change to policy. Following the annual review, salaries for the executive directors for 2019 are:

Name	2018 Salary	2019 Salary	Percentage change
Henry Klotz	**£400,000**	£412,000	3%
Fredrik Widlund	**£343,985**	£354,305	3%
John Whiteley	**£278,995**	£287,365	3%
Sten Mortstedt	**£317,035**	£326,545	3%

The Group's pay review, taking effect from 1 January 2019, awarded a percentage increase in wages and salaries of 3% to UK and German employees, 2.6% to French employees and 2.8% to its Swedish employee, subject to role-specific industry benchmarks.

Non-Executive Director Fees

	2018	2019	Percentage change
Board membership	**£30,000**	£45,000	50%
Senior Independent Director	**£5,000**	£10,000	100%
Committee chairmanship	**£8,000**	£10,000	25%
Committee membership	**£5,000**	£5,000	0%

Element	Policy and Operation for 2019
Benefits	As per policy.
Pension	As per policy.
Performance Incentive Plan ('PIP')	As per policy.

Both elements are outlined below:

ELEMENT A

- Maximum annual contribution into a Participant's Plan Account of 150% of salary.
- Contributions will be earned based on the Company's KPIs and the individual's personal performance rating.
- Contributions will be made for three years with payments made over four years.
- 50% of the value of a Participant's Plan Account will be paid out annually for three years with 100% of the residual value paid out at the end of year four.
- 50% of the unpaid balance of a Participant's Plan account will be at risk of annual forfeiture, the application of which will take account of relative TSR, absolute TSR, strategic, financial and operational performance.

ELEMENT B

- Maximum annual deferred share award of up to 100% of salary.
- Deferred share award will be earned based on the same performance conditions as set for Element A.
- Shares earned under Element B are subject to a three-year vesting period during which the participant must remain employed by the Company and also cannot be sold for five years from the date of award, irrespective of employment status. Awards under Element B will be made in March/April of the year following the year during which performance was measured.
- The maximum opportunity for the executive directors for 2019 has been set at 80% of salary for the Chief Executive Officer and 65% for the Chief Financial Officer.

Remuneration report (continued)

Statement of implementation of remuneration policy in the following financial year

Element	Policy and Operation for 2019
Performance Incentive Plan ("PIP") continued	For 2019 the Committee reivewed the KPIs, their respective targets and weightings. It was concluded that the Administration Cost Ratio targets would be amended from to reflect the approved Group budget, which was commensurate with the growth of the Group (2018 targets can be found on page 66). All remaining KPIs, their targets and weightings remain unchanged.

The following table sets out the maximum bonus which can be earned in respect of each KPI for 2019, expressed as a percentage of salary:

KPIs	Performance breakdown (%) CEO (Max bonus target)	CFO (Max bonus target)
Total Shareholder Return (absolute)	37.5	25.0
Total Shareholder Return (relative)	22.5	15.0
Vacancy Rate	22.5	10.0
Administration cost ratio (as % of Net Rental Income)	22.5	20.0
Personal Performance	15.0	10.0
Total Accounting Return (previously EPRA NAV Growth)	30.0	20.0
Available Bonus Target as a % of salary	150.0	100.0

The following table sets out the targets for 2019 in respect of each KPI:

KPI	Maximum forfeiture	Bonus/ forfeiture threshold	On target performance	Good performance	Maximum performance
Total Shareholder Return (absolute)	1%	3%	12%	14%	16%
Total Shareholder Return (relative)	Lower Quartile	(linear)	Median	(linear)	Upper Quartile
Vacancy Rate	10%	8%	5%	4%	3%
Administration Cost Ratio (as % of Net Rental)	19.0%	18.0%	17.0%	16.0%	15.0%
Personal Performance	2	2.5	4	4.5	5
Total Accounting Return (previously EPRA NAV Growth)	0.0%	3.0%	6.0%	7.5%	9.0%

Element	Policy and Operation for 2019
All Employee Share Plan	The Company operates a Share Incentive Plan ("SIP") to allow all employees, including executive directors, to share in the potential value created by the Company. Matching shares offered at a ratio of one for every partnership share purchased. Mr Widlund and Mr Whiteley participate in this scheme.
Founder Shareholder	As per policy.

CONSIDERATION OF MATTERS RELATING TO DIRECTORS' REMUNERATION

As set out in this report, the Remuneration Committee is responsible for recommending to the Board the remuneration policy for executive directors and for setting their remuneration packages. The Committee also has oversight of the remuneration policy and packages for other senior members of staff.

DIRECTORS' CONTRACTS

Each of the executive directors has a service contract of no fixed term, save for Mr Whiteley who is due to retire on 30 June 2019. There is no provision in the contracts of Mr Mortstedt, Mr Klotz, Mr Widlund or Mr Whiteley for contractual termination payments, save for those payments normally due under employment law.

Each non-executive director has a letter of appointment but, in accordance with best practice, none has a service contract. All of the non-executive directors are appointed until such time as they are not re-elected. In compliance with the Code, all Company Directors will face re-election at the Company's AGM in April. If a director fails to be re-elected the terms of their appointment will cease. It is the Company's policy not to offer notice periods of more than 12 months exercisable by either party.

Details of the service contracts or letters of appointment of those who served as directors during the year are as follows:

Name		Contract Date	Notice Period (months)
Henry Klotz	Executive	10 November 2015	6
Fredrik Widlund	Executive	3 November 2014	12
John Whiteley	Executive	1 October 2009	n/a[1]
Sten Mortstedt	Executive	1 January 2005	12
Malcolm Cooper	Non-Executive	15 June 2007	3
Elizabeth Edwards	Non-Executive	13 May 2014	3
Christopher Jarvis	Non-Executive	25 November 2008	3
Bengt Mortstedt	Non-Executive	7 March 2017	3
Anna Seeley	Non-Executive	11 May 2015	3
Lennart Sten	Non-Executive	1 August 2014	3

1 Mr Whiteley's notice period was 6 months; his contract has been amended to reflect his intended retirement on 30 June 2019, which date may be altered by mutual agreement.

ADVISERS TO THE REMUNERATION COMMITTEE

During the year, the Committee sought advice from its remuneration consultants, PwC, whom the Committee appointed in relation to the Performance Incentive Plan and general matters related to remuneration, and from the Company Secretary in relation to peer group remuneration analysis. PwC is a founding member of the Remuneration Consultants' Group and has signed up to that group's Code of Conduct. The fees for the advice provided by PwC were £60,025 (2017: £84,950). The fees were fixed on the basis of agreed projects. The Committee reviews the objectivity and independence of the advice it receives from PwC at a private meeting each year. It is satisfied that PwC is providing independent, robust and professional advice.

SHAREHOLDER VOTING

The following table represents the voting at the 2018 Annual General Meeting. The existing Policy was approved at the 2017 Annual General Meeting:

	Directors' Remuneration Policy (2017 AGM)		Directors Remuneration Report (2018 AGM)	
	Number of votes	% of votes cast	Number of votes	% of votes cast
In favour	27,785,622	85.7	320,312,662	95.7
Against	4,633,023	14.3	14,436,310	4.31
Total votes cast	32,418,645		334,748,972	
Votes withheld	13,488		34,861	

See the Committee Chairman's Annual Statement on page 61 for the Committee's analysis and actions.

On behalf of the Board Committee

Christopher Jarvis
Chairman
Remuneration Committee
7 March 2019

Directors' report

The Directors present their annual report and the audited financial statements for the year ended 31 December 2018.

The Chairman's Statement, Strategic report and corporate governance report form part of this report and should be read in conjunction with it.

REVIEW OF BUSINESS

— The Group income statement for the year is set out on page 90.
— The Group objective, business model and strategy is set out on pages 8-11. KPIs are set out on pages 16 and 17.
— Important events (including post balance sheet events) affecting the Company are set out on pages 6 to 35.
— The principal risks and uncertainties are set out on pages 18 and 19.
— The use of financial instruments are set out on page 28, and in note 23 to the Group financial statements.
— The risk management objectives are also detailed in note 23 to the Group financial statements.
— The Group's likely future developments are set out on pages 6 and 7.

DIRECTORS

Biographical details of the current Directors of the Company are set out on pages 40 and 41.

All Directors will be subject to annual re-election at the 2019 Annual General Meeting in accordance with the UK Corporate Governance Code. In his role as Executive Chairman, Henry Klotz recommends the re-election of the retiring Directors at the 2019 Annual General Meeting, given their performance and continued important contribution to the Company. The Senior Independent Non-Executive Director recommends the re-election of Mr Klotz.

Directors remuneration and interests in shares is set out on pages 61 to 74.

Related party transactions are set out in note 34 to the Group financial statements.

DIVIDENDS

An interim dividend of 2.20 pence per share was paid on 28 September 2018. The Directors are proposing a final dividend of 4.70 pence per share making a total dividend for the year ended 31 December 2018 of 6.90 pence per share. The final dividend will be paid on 29 April 2019 to shareholders who are on the register of members on 5 April 2019.

PURCHASE OF THE COMPANY'S SHARES

There were no purchases of the Company's own shares during the year. A resolution will be proposed at the 2019 Annual General Meeting to give the Company authority to make market purchases of up to 40,739,576 shares, being 10% of the current issued share capital.

SHARE CAPITAL

Changes in share capital are shown in note 25 to the Group financial statements. At 31 December 2018, and at the date of this report, the Company's issued share capital consisted of 438,777,780 ordinary shares of 2.5 pence each, of which 407,395,760 held voting rights and 31,382,020 shares were held as treasury shares, and all of which ranked pari passu. The rights (including full details relating to voting), obligations and any restrictions on transfer relating to the Company's shares, and the powers of the Directors in that regard, are set out in the Company's Articles of Association.

MAJOR INTERESTS IN THE COMPANY'S SHARES

Other than Mr Sten Mortstedt's 51.39% interest referred to in the Directors' Remuneration Report, on page 70, as at 7 March 2019 the Company has been notified of the following interests above 3% in the Company's issued share capital:

	No. of shares	%
Fidelity Worldwide Invesments	39,220,258	9.63%
Bengt Mortstedt	28,072,550	6.52%
Bank of Montreal	24,656,247	5.29%
Invesco	20,513,376	5.04%

Details of the Directors' interests in shares are shown in the Remuneration Committee Report on page 70. There are no shareholders who carry special rights with regard to control of the Company and there are no restrictions on voting rights. The Company knows of no agreements between holders of securities which would result in restrictions on the transfer of securities or on voting rights.

SIGNIFICANT AGREEMENTS – CHANGE OF CONTROL

A change of control of the Company may cause a number of agreements to which the Company or its active subsidiaries is party, such as commercial trading contracts, banking arrangements, property leases and licence agreements, to alter or terminate or provisions in those agreements to take effect. In the context of the Group as a whole, only the banking arrangements are considered to be significant. There are no agreements between the Company and its Directors or employees providing for compensation for loss of office or employment that occur because of a change of control.

RELATIONSHIP AGREEMENT – CONTROLLING SHAREHOLDER

As at 31 December 2018, Creative Value Investment Group Limited ("CVIG"), the investment vehicle for the Sten and Karin Mortstedt Family and Charity Trust, held through its wholly owned subsidiaries 51.38% of the Company's shares in issue and was therefore seen as a controlling shareholder under the Listing Rules.

Pursuant to Listing Rule 9.8.4, the Company has entered into a relationship agreement which shall only be terminated in the event that CVIG ceases to be a controlling shareholder, or if the Company ceases to be admitted to listing on the premium segment of the Official List. Throughout the period under review, the Company has complied with the mandatory independence provisions and procurement obligations in the relationship agreement, and as far as the Company is aware, CVIG has also complied.

PROPERTY PORTFOLIO

A valuation of all the investment properties and properties held for sale in the Group at 31 December 2018 was carried out by Cushman and Wakefield for the UK and Germany, and Jones Lang Lasalle for France, which produced an aggregate market value of £1,892.4 million (2017: £1,771.3 million).

CORPORATE GOVERNANCE

The Corporate Governance Statement, prepared in accordance with rule 7.2 of the FCA's Disclosure Guidance and Transparency Rules, is set out on pages 38 to 74 and forms part of this report.

EMPLOYEES, ENVIRONMENTAL AND SOCIAL ISSUES

The Group's policies on employment, environmental and social issues (including the information required by the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013), including charitable donations, are summarised in the Corporate, Social and Environmental Responsibility Report on pages 30 to 35. No political donations to any parties, organisations or candidates, or political expenditure were made during 2018. The Group notes the Equality Act 2010 (Gender Pay Gap Information) Regulations 2017 which came into force in April 2017. The regulations apply to companies with over 250 employees, and as a result the Group is not required to report this information, however it is actively looking at ways in which to gather and report this data on a voluntary basis in the future. The Group has also published a CSER Report, which is available on line at www.clsholdings.com.

Directors' report (continued)

HUMAN RIGHTS

The Board ensures the Group upholds and promotes respect for human rights in all its current operating locations and aims to prevent any negative human rights impact. As the Group operates in the UK, Germany and France it is subject to the European Convention on Human Rights and the UK Human Rights Act 1998. The Group respects all human rights and in conducting its business regards those rights relating to non-discrimination and fair treatment to be the most relevant and to have the greatest potential impact on its key stakeholders, which are deemed to be customers, employees and suppliers. The Board has also noted its moral and legal obligations under the Modern Slavery Act 2015. The Board has a zero tolerance approach towards modern slavery, and throughout the year the Company has contacted its first tier contractors and suppliers. Our full statement on Modern Slavery can be found on our website at www.clsholdings.com. The Group's policies seek to ensure that employees comply with the relevant legislation and regulations in place to promote good practice. The Group's policies are formulated and kept up to date and communicated to all employees through the Group Intranet and, where appropriate, individual presentations. In the year to 31 December 2018, the Group was not aware of any incident in which the organisation's activities have resulted in an abuse of human rights.

INSURANCE OF DIRECTORS AND INDEMNITIES

The Company has arranged insurance cover in respect of legal action against its Directors and Officers. The Company has granted indemnities to each of the Directors and other senior management, uncapped in amount but subject to applicable law, in relation to certain losses and liabilities which they may incur in the course of acting as Directors or employees of the Company or one or more of its subsidiaries or associates.

AUDITOR

A resolution to reappoint Deloitte LLP as auditor to the Company will be proposed at the forthcoming Annual General Meeting.

2019 ANNUAL GENERAL MEETING

The 2019 Annual General Meeting will be held on Thursday, 25 April 2019. The notice of meeting, including explanatory notes for the resolutions to be proposed, will be posted to shareholders.

DISCLOSURE OF INFORMATION TO THE AUDITOR

Each Director has confirmed at the date of this report that:

— so far as they are aware, there is no relevant audit information of which the Company's auditor is unaware; and
— they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

GOING CONCERN

The current macro-economic conditions have created a number of uncertainties as set out on pages 18 and 19. The Group's business activities, and the factors likely to affect its future development and performance, are set out in the Strategic Report on pages 6 to 35. The financial position of the Group, its liquidity position and borrowing facilities are described in the Strategic Report and in notes 18 and 21 of the Group financial statements. The Directors regularly stress-test the business model to ensure that the Group has adequate working capital and have reviewed the current and projected financial positions of the Group, taking into account the repayment profile and covenants of the Group's loan portfolio, and making reasonable assumptions about future trading performance. The Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future and further details of this analysis are set out in the Viability Statement on page 52. Therefore, the Directors continue to adopt the going concern basis in preparing the annual report and accounts.

DISCLOSURES UNDER LISTING RULE 9.8.4R

The table below is included to comply with the disclosure requirements under Listing Rule 9.8.4R. The information required by the Listing Rules can be found in the Annual Report at the location stated below.

Listing Rule	Information required	Disclosure
9.8.4(1)	Interest capitalised by the Group	Note 9
9.8.4(2)	Publication of unaudited financial information	None
9.8.4(4)	Long-term incentive schemes with directors	None
9.8.4(5)	Director's waiver of emoluments	Page 65
9.8.4(6)	Director's waiver of future emoluments	None
9.8.4(7)	Non pro rata allotments for cash (issuer)	None
9.8.4(8)	Non pro rata allotments for cash (major subsidiaries)	None
9.8.4(9)	Listed company is subsidiary of another company	None
9.8.4(10)	Contracts of significance with a director	None
9.8.4(11)	Contracts of significance with Controlling Shareholder	None
9.8.4(12)	Dividend waiver	Not applicable
9.8.4(13)	Waiver of future dividends	Not applicable
9.8.4(14)	Relationship Agreement with controlling shareholder	Page 76

The following table is included to comply with the additional disclosure requirements under the Listing Rule 9.8.6

Listing Rule	Information Required	Disclosure
9.8.6(1)	Directors' (and Connected Persons') interests in CLS shares at year end and at not more than one month prior to the date of the AGM notice	Page 69
9.8.6(2)	Interests in CLS shares disclosed under DTR5 at year end and not more than one month prior to the date of AGM notice	Page 78
9.8.6(3)	The going concern statement	Page 77
9.8.6(4)(a)	Amount of authority to purchase own shares available at year end	The Company had the authority to purchase 40,739,576 shares at the year end
9.8.6(4)(b)	Off-market purchases of own shares during the year	None
9.8.6(4)(c)	Off-market purchases of own shares since year end	None
9.8.6(4)(d)	Non-pro rata sales of treasury shares during the year	None
9.8.6(5)	Compliance with the Main Principles of the UK Corporate Governance Code	Page 42
9.8.6(6)(b)	Details of non-compliance with the UK Corporate Governance Code	Pages 38-60
9.8.6(7)	Directors proposed for re-election: the unexpired term of any Director's service contract and a statement about Directors with no service contracts	Pages 40, 41 and 75

On behalf of the Board

David Fuller BA FCIS
Company Secretary
7 March 2019

Director's responsibility statement

DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation, and have elected to prepare the parent company financial statements in accordance with FRS101 of United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period.

In preparing the parent company financial statements, the Directors are required to:
- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

In preparing the Group financial statements, International Accounting Standard 1 requires that Directors:
- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Group's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

RESPONSIBILITY STATEMENT

We confirm that to the best of our knowledge:
- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

This statement of responsibilities was approved by the Board on 7 March 2019.

On behalf of the Board

David Fuller BA FCIS
Company Secretary
7 March 2019

Financial statements

In this section:

Harman House, Uxbridge
Multi-let building, fully let

Independent auditor's report
To the members of CLS Holdings plc

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS
OPINION
In our opinion:
- the financial statements of CLS Holdings plc (the 'parent company') and its subsidiaries (the 'group') give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2018 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements which comprise:
- the Group Income Statement;
- the Group Statement of Comprehensive Income;
- the Group and Parent Company Balance Sheets;
- the Group Statement of Cash Flows;
- the Group and Parent Company Statements of Changes in Equity; and
- the related notes 1 to 34 to the Group financial statements and 1 to 15 to the Parent Company financial statements.

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

BASIS FOR OPINION
We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We identified during 2018 that we had extended our provision of certain tax services beyond the original scope for an immaterial entity in Sweden that did not form a significant part of our group audit, and upon which we did not provide a separate audit opinion. The entity contributes 0.45% of the net assets of the group, the work performed resulted in a wholly immaterial change to the tax position of the group, our non-audit fees for this service were £15,500. This service was considered to have a direct effect on the financial statements of the subsidiary and therefore is deemed to be prohibited by paragraph 5.167R of the FRC's Ethical Standard although the amounts involved were well below our reporting threshold. Upon identifying the breach, we immediately ceased providing all tax services to the group. We confirm, that based on our assessment of this breach and the subsequent actions taken, these services did not, in our view, impact upon our integrity, objectivity and independence as auditor to the group.

Other than the matter referred to above, and to the best of our knowledge and belief, we confirm that no non-audit services prohibited by the FRC's Ethical Standard were provided to the group or parent company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

SUMMARY OF OUR AUDIT APPROACH

Key audit matters	The key audit matters that we identified in the current year were the valuation of the investment property portfolio and accounting for significant transactions.
Materiality	The materiality that we used for the group financial statements was £22.5m based on 2% of net assets. For testing of balances that impacted EPRA adjusted profit before tax, a lower materiality of £3.5m was used based on 5% of that measure.
Scoping	We subject all locations in which CLS operate to specific audit procedures, this accounts for 100% of the Group's net assets, revenue and profit before tax.
Significant changes in our approach	There has been no significant change in our approach from the prior year.

CONCLUSIONS RELATING TO GOING CONCERN, PRINCIPAL RISKS AND VIABILITY STATEMENT

GOING CONCERN

We have reviewed the directors' statement in 2.1 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the group's and company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

We considered as part of our risk assessment the nature of the group, its business model and related risks including where relevant the impact of Brexit, the requirements of the applicable financial reporting framework and the system of internal control. We evaluated the directors' assessment of the group's ability to continue as a going concern, including challenging the underlying data and key assumptions used to make the assessment, and evaluated the directors' plans for future actions in relation to their going concern assessment.

We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.

PRINCIPAL RISKS AND VIABILITY STATEMENT

Based solely on reading the directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the directors' assessment of the group's and the company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

- the disclosures on pages 18-19 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation on page 42 that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity; or
- the directors' explanation on page 52 as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to report whether the directors' statement relating to the prospects of the group required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Independent auditor's report continued
To the members of CLS Holdings plc

VALUATION OF THE INVESTMENT PROPERTY PORTFOLIO

Key audit matter description	**The assessment of the carrying value of the investment property portfolio, specifically the process, assumption and judgements used to derive the property valuations.** The Group's investment properties in the UK, Germany, and France are held at £1,888.1m at 31 December 2018 (31 December 2017: £1,753.4m), see note 13 for full disclosure, making this the most quantitatively material balance in the financial statements. The valuation of the portfolio is a significant judgement area that is underpinned by a number of assumptions including capitalisation yields and future lease income. Our key audit matter in relation to the valuation of the investment property portfolio is pinpointed to the judgement within the inputs used in the data supplied to the Group's valuers for the valuation process and the risk of potential manipulation of this by management in order to fraudulently misstate the valuation. Refer to the audit committee report on page 58 where this is included as a significant issue. The relevant accounting policy for the Group is presented in note 2 on page 97.
How the scope of our audit responded to the key audit matter	We assessed the design and implementation of key controls in respect of this business process. We assessed management's process for reviewing the valuations of the property portfolio. We utilised the expertise of a real estate specialist and chartered surveyor for our challenge of the investment property valuations, in particular to analyse those inputs used in the data supplied to the Group's valuers for the valuation process. We obtained the external valuation reports and met with the external valuers of the property portfolio to discuss, understand and challenge the valuation process, estimated rental values, performance of the portfolio, significant assumptions and critical judgement areas, including occupancy rates, yields and development milestones. As part of our meeting with the external valuers we assessed their competence, independence and integrity. Our real estate specialist provided relevant industry data for the UK and drew on local expertise in the European markets in which CLS operates. This was used to benchmark the portfolio performance and key assumptions used to assess whether the external evidence supported the assumptions used by the valuers. Finally, we assessed, on a sample basis, the integrity of information provided to the valuer, relating to rental income, to evaluate whether it was consistent with the relevant leases.
Key observations	We concluded that the assumptions applied in arriving at the fair value of the Group's property portfolio were appropriate.

ACCOUNTING FOR SIGNIFICANT TRANSACTIONS

Key audit matter description	**The assessment of the accounting treatment for the most significant transactions.** In January 2019, the Group's announced that it had exchanged contracts to sell its 58% holding in First Camp Sverige Holding AB ("First Camp"). This transaction has resulted in two significant judgements being made by management: • The decision to treat First Camp as discontinued operations in accordance with IFRS 5 in these financial statements; and • To recognise a write down of £17.9m against the assets within First Camp to their recoverable amount per the exchanged contract. The discontinued operations have been presented in note 24.

How the scope of our audit responded to the key audit matter	We assessed the design and implementation of key controls in respect of this business process. We have obtained and challenged management's workings and memorandum in respect of this transaction and the subsequent accounting treatment in the group accounts. We have challenged the classification as discontinued operation in accordance with IFRS 5 in particular whether this constitutes the groups departure from a separate line of business. We have audited the transaction by agreeing the key amounts to the exchanged contracts and to the audited reporting package for First Camp.
Key observations	In respect of the classification as a discontinued operation we concur with management's treatment to be in accordance with IFRS 5. We conclude the underlying workings for the transaction to be free from material misstatement.

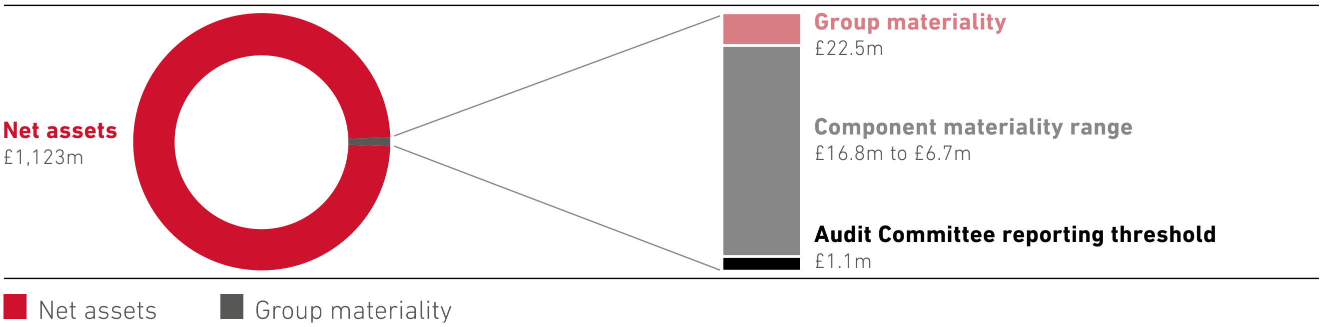
OUR APPLICATION OF MATERIALITY

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	**Parent company financial statements**
Materiality	£22.5m (2017: £20.7) We continue to consider EPRA adjusted profit before tax to be a critical performance measure for the Group and we applied a lower materiality of £3.5m (2017: £2.2m) for testing of balances impacting that measure, being most balance sheet and income statement balances with the exception primarily of fair value movements on investment property, investments and financial instruments.	£16.8m (2017: £15.5m) We used a lower materiality for those items impacting EPRA adjusted profit before tax of £2.6m (2017: £1.6m).
Basis for determining materiality	We have determined materiality for the Group and Parent Company based on 2% (2017: 2%) of net assets. For testing of balances that impact EPRA adjusted profit before tax, a basis of 5% (2017: 5%) of that measure has been used.	
Rationale for the benchmark applied	As an investment property company, the main focus of management is to generate long-term capital value from the investment property portfolio and, therefore, we consider net assets to be the most appropriate basis for materiality. The increase in materiality from the prior year reflects the increase in net assets driven by the uplift in the valuation of the investment property portfolio, largely as a result of the favourable exchange rate movements.	

Independent auditor's report continued
To the members of CLS Holdings plc



We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £1.1m (2017: £1.0m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

AN OVERVIEW OF THE SCOPE OF OUR AUDIT

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risk of material misstatement at the Group level. Based on that assessment, and consistent with our conclusion on scoping in the prior year, we focused our Group audit scope on the audit work at each of the Group's principal business units, being the UK, Germany and France. These locations represent the principal business units of the group and are considered by us to be the significant components. These components, together with the audit work performed directly by the Group audit team, account for 100% (2017: 100%) of the Group's net assets, revenue and profit before tax. All business units were subject to specific audit procedures. This approach provides an appropriate basis for undertaking audit work to address the risks of material misstatement identified above.

Our audit work at each of the three significant business units has been executed by Deloitte component auditors at levels of materiality applicable to each individual business unit which were lower than Group materiality and ranged from £6.7 million to £16.8 million (2017: £8.3 million to £15.6 million) with lower materialities being used for those items impacting EPRA adjusted profit before tax, consistent with the Group audit approach.

The audit work on the key audit matters has been led by the Group audit team, supplemented by specific procedures by the component auditors to gain assurance over the information provided to the valuers only. The component auditors' work has been reviewed by the Group team on site for the German component and remotely for the French component in the current year and, where necessary, component auditors carried out further testing at our request, the UK component is audited by the Group audit team.

At the Group level we tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information.

All component audit partners are included in our team briefing where their risk assessment is discussed and there is frequent two-way communication between the Group and component teams. In the year, we have visited our component team in Germany to perform our file review and attend the local close meeting, we attended the French close meeting via a teleconference call.

OTHER INFORMATION

We have nothing to report in respect of these matters.

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- *Fair, balanced and understandable* – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- *Audit committee reporting* – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- *Directors' statement of compliance with the UK Corporate Governance Code* – the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

RESPONSIBILITIES OF DIRECTORS

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Independent auditor's report continued
To the members of CLS Holdings plc

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud are set out below.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

EXTENT TO WHICH THE AUDIT WAS CONSIDERED CAPABLE OF DETECTING IRREGULARITIES, INCLUDING FRAUD

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

IDENTIFYING AND ASSESSING POTENTIAL RISKS RELATED TO IRREGULARITIES

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:

- enquiring of management and the audit committee, including obtaining and reviewing supporting documentation, concerning the group's policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations;
- discussing among the engagement team, including significant component audit teams, and involving relevant internal specialists, including tax, real estate, and financial instrument specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, we identified potential for fraud in the information sent to the valuers for use in valuing the group's investment property; and
- obtaining an understanding of the legal and regulatory framework that the group operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the group. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules, and tax legislation.

AUDIT RESPONSE TO RISKS IDENTIFIED

As a result of performing the above, we identified the valuation of the investment property portfolio as a key audit matter. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, the audit committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance and reviewing correspondence with HMRC; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and significant component audit teams, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

OPINIONS ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the group and of the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

ADEQUACY OF EXPLANATIONS RECEIVED AND ACCOUNTING RECORDS

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

DIRECTORS' REMUNERATION

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the directors' remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

OTHER MATTERS

AUDITOR TENURE

Following the recommendation of the audit committee, we were appointed by The Board of CLS Holdings plc on 23 May 2007 to audit the financial statements for the year ending 31 December 2007 and subsequent financial periods. Following a competitive tender process, we were reappointed as auditor for the period ending 31 December 2017 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is twelve years, covering the years ending 31 December 2007 to 31 December 2018.

CONSISTENCY OF THE AUDIT REPORT WITH THE ADDITIONAL REPORT TO THE AUDIT COMMITTEE

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

USE OF OUR REPORT

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Georgina Robb FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
7 March 2019

Group income statement
for the year ended 31 December 2018

	Notes	2018 £m	Restated 2017 £m
Continuing operations			
Group revenue	4	**133.0**	120.3
Net rental income	4	**107.3**	100.0
Administration expenses	5	**(17.8)**	(14.6)
Other expenses		**(13.2)**	(12.2)
Group revenue less costs		**76.3**	73.2
Net movements on revaluation of investment properties	13	**62.8**	94.2
Net movements on revaluation of equity investments	16	**22.2**	–
Profit on sale of properties		**2.3**	43.7
Gain on sale of other financial instruments, net of impairments		**1.7**	2.5
Operating profit		**165.3**	213.6
Finance income	8	**6.1**	10.0
Finance costs	9	**(26.5)**	(32.4)
Share of loss of associates after tax	15	**–**	(0.7)
Profit before tax		**144.9**	190.5
Taxation	10	**(12.1)**	(33.5)
Profit for the year from continuing operations	6	**132.8**	157.0
Discontinued operations			
(Loss)/profit for the year from discontinued operations	24	**(14.9)**	0.9
Profit for the year		**117.9**	157.9
Attributable to:			
Owners of the Company		**124.3**	157.7
Non-controlling interests		**(6.4)**	0.2
		117.9	157.9
Earnings per share (expressed in pence per share)			
Basic and diluted earnings per share from continuing operations		**32.6**	38.5
Basic and diluted (loss)/earnings per share from discontinued operations		**(2.1)**	0.2
Basic and diluted earnings per share	11	**30.5**	38.7

The notes on pages 95 to 125 are an integral part of these Group financial statements.

2017 has been restated to separate the individual line items of discontinued operations from those of continuing operations, see note 24.

Group statement of comprehensive income
for the year ended 31 December 2018

	Notes	2018 £m	Restated 2017 £m
Profit for the year		**117.9**	157.9
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Foreign exchange differences		**3.6**	7.7
Items that may be reclassified to profit or loss			
Fair value (loss)/gains on corporate bonds and other financial investments	16	**(7.4)**	13.9
Fair value gains taken to gain on sale of other financial investments, net of impairments		**(0.4)**	(0.9)
Revaluation of property, plant and equipment	14	**(0.4)**	(0.9)
Fair value of gains taken to profit on sale of properties		**–**	(3.9)
Deferred tax on net fair value gains	20	**0.6**	0.5
Discontinued operations		**1.5**	0.8
Total items that may be reclassified to profit or loss		**(6.1)**	9.5
Total comprehensive income for the year		**115.4**	175.1
Total comprehensive income attributable to:			
Owners of the Company		**121.4**	174.4
Non-controlling interests		**(6.0)**	0.7
		115.4	175.1

The notes on pages 95 to 125 are an integral part of these Group financial statements.

2017 has been restated to separate items that are attributable to discontinued operations.

Group balance sheet
at 31 December 2018

	Notes	2018 £m	Restated 2017 £m
Non-current assets			
Investment properties	13	**1,888.1**	1,753.4
Property, plant and equipment	14	**33.7**	33.4
Goodwill and intangibles		**1.4**	1.3
Investments in associates	15	**–**	–
Other financial investments	16	**107.8**	121.6
Derivative financial instruments	22	**–**	0.1
Deferred tax	20	**3.5**	3.3
		2,034.5	1,913.1
Current assets			
Trade and other receivables	17	**12.3**	8.7
Properties held for sale		**4.3**	17.9
Derivative financial instruments	22	**–**	0.6
Cash and cash equivalents	18	**100.3**	146.0
Assets of discontinued operations	24	**56.1**	71.1
		173.0	244.3
Total assets		**2,207.5**	2,157.4
Current liabilities			
Trade and other payables	19	**(51.9)**	(54.4)
Current tax		**(7.0)**	(11.5)
Derivative financial instruments	22	**(0.5)**	–
Borrowings	21	**(66.3)**	(96.4)
Liabilities of discontinued operations	24	**(44.3)**	(44.9)
		(170.0)	(207.2)
Non-current liabilities			
Deferred tax	20	**(139.3)**	(135.1)
Borrowings	21	**(770.6)**	(774.9)
Derivative financial instruments	22	**(4.6)**	(6.9)
		(914.5)	(916.9)
Total liabilities		**(1,084.5)**	(1,124.1)
Net assets		**1,123.0**	1,033.3
Equity			
Share capital	25	**11.0**	11.0
Share premium	27	**83.1**	83.1
Other reserves	28	**123.0**	143.0
Retained earnings		**905.1**	789.4
Equity attributable to owners of the Company		**1,122.2**	1,026.5
Non-controlling interests		**0.8**	6.8
Total equity		**1,123.0**	1,033.3

The financial statements of CLS Holdings plc (registered number: 2714781) were approved by the Board of Directors and authorised for issue on 7 March 2019 and were signed on its behalf by:

Mr E H Klotz
Executive Chairman

The notes on pages 95 to 125 are an integral part of these Group financial statements.
2017 has been restated to separate the assets and liabilities of discontinued operations from those of continuing operations, see note 24.

Group statement of changes in equity
for the year ended 31 December 2018

	Share capital £m Note 25	Share premium £m Note 27	Other reserves £m Note 28	Retained earnings £m	Total £m	Non-controlling interest £m	Total equity £m
Arising in 2018:							
Total comprehensive income for the year	**–**	**–**	**(2.9)**	**124.3**	**121.4**	**(6.0)**	**115.4**
Employee Performance Incentive Plan charge	**–**	**–**	**0.8**	**–**	**0.8**	**–**	**0.8**
Reclassify fair value movements on equity investments (note 2.1)	**–**	**–**	**(17.9)**	**17.9**	**–**	**–**	**–**
Dividends to shareholders	**–**	**–**	**–**	**(26.5)**	**(26.5)**	**–**	**(26.5)**
Total changes arising in 2018	**–**	**–**	**(20.0)**	**115.7**	**95.7**	**(6.0)**	**89.7**
At 1 January 2018	**11.0**	**83.1**	**143.0**	**789.4**	**1,026.5**	**6.8**	**1,033.3**
At 31 December 2018	**11.0**	**83.1**	**123.0**	**905.1**	**1,122.2**	**0.8**	**1,123.0**

	Share capital £m Note 25	Share premium £m Note 27	Other reserves £m Note 28	Retained earnings £m	Total £m	Non-controlling interest £m	Total equity £m
Arising in 2017:							
Total comprehensive income for the year	–	–	16.7	157.7	174.4	0.7	175.1
Employee Performance Incentive Plan charge	–	–	0.4	–	0.4	–	0.4
Dividends to shareholders	–	–	–	(24.7)	(24.7)	–	(24.7)
Total changes arising in 2017	–	–	17.1	133.0	150.1	0.7	150.8
At 1 January 2017	11.0	83.1	125.9	656.4	876.4	6.1	882.5
At 31 December 2017	11.0	83.1	143.0	789.4	1,026.5	6.8	1,033.3

The notes on pages 95 to 125 are an integral part of these Group financial statements.

Group statement of cash flows
for the year ended 31 December 2018

	Notes	2018 £m	Restated 2017 £m
Cash flows from operating activities			
Cash generated from operations	29	**72.9**	73.7
Interest received		**4.4**	6.8
Interest paid		**(24.2)**	(24.1)
Income tax paid on operating activities		**(5.1)**	(7.6)
Net cash inflow from operating activities		**48.0**	48.8
Cash flows from investing activities			
Purchase of investment properties		**(70.9)**	(230.8)
Capital expenditure on investment properties		**(15.8)**	(24.2)
Proceeds from sale of properties		**48.8**	241.9
Income tax paid on sale of properties		**(7.9)**	(8.5)
Purchases of property, plant and equipment		**(2.0)**	(1.1)
Purchase of corporate bonds		**(39.7)**	(11.9)
Proceeds from sale of corporate bonds		**68.7**	12.0
Proceeds from sale of equity investments		**1.0**	5.6
Dividends received from equity investments		**1.7**	1.4
Purchase of intangibles		**(0.1)**	–
Net cash flow from discontinued operations		**1.0**	(0.3)
Costs on foreign currency transactions		**(0.9)**	(3.8)
Net cash outflow from investing activities		**(16.1)**	(19.7)
Cash flows from financing activities			
Dividends paid		**(26.5)**	(24.7)
New loans		**137.7**	211.6
Issue costs of new loans		**(1.8)**	(2.5)
Repayment of loans		**(181.7)**	(176.4)
Net cash (outflow)/inflow from financing activities		**(72.3)**	8.0
Cash flow element of net (decrease) /increase in cash and cash equivalents		**(40.4)**	37.1
Foreign exchange gains		**0.2**	5.1
Net (decrease)/ increase in cash and cash equivalents		**(40.2)**	42.2
Cash and cash equivalents at the beginning of the year		**140.5**	98.3
Cash and cash equivalents at the end of the year	18	**100.3**	140.5

The notes on pages 95 to 125 are an integral part of these Group financial statements.

Income tax paid on the sale of properties has been disclosed within cash flows from investing activities as it is a direct cost associated with property sales. Previously income tax paid on sale of properties was included within income tax paid on operating activities.

Notes to the Group financial statements
31 December 2018

1 GENERAL INFORMATION
CLS Holdings plc (the "Company") and its subsidiaries (together "CLS Holdings" or the "Group") is an investment property group which is principally involved in the investment, management and development of commercial properties, and in other investments. The Group's principal operations are carried out in the United Kingdom, Germany and France.

The Company is registered in the UK, registration number 2714781, with its registered address at 16 Tinworth Street, London SE11 5AL. The Company is listed on the London Stock Exchange.

2 SIGNIFICANT ACCOUNTING POLICIES
The principal accounting policies applied in the preparation of these Group financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 BASIS OF PREPARATION
The financial statements have been prepared on a going concern basis as explained in the Directors' Report on page 77 and have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union, International Financial Reporting Interpretations Committee ("IFRIC") interpretations, and the provisions of the Companies Act 2006 applicable to companies reporting under IFRS.

NEW STANDARDS AND INTERPRETATIONS
In the current year, the Group has applied a number of new standards and amendments to IFRSs issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2018. With the exception of IFRS 9, Financial Instruments, their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements. These new standards and amendments are listed below:

- IFRS 2 (amendments) Classification and measurement of share-based payment transactions
- IAS 40 (amendments) Transfers of Investment Property
- IFRIC 22 Foreign Currency Transactions and advance consideration
- IFRS 15 Revenue from Contracts with Customers

IFRS 9 Financial Instruments

Listed equity securities (see note 16) were previously treated as available for sale and held at fair value on the balance sheet. Under IAS 39, movements in fair value were recognised directly in equity through other comprehensive income. On derecognition or impairment of these assets, any gains previously recognised in equity were recycled to the income statement. Under IFRS 9, listed equity securities are now classified as financial assets at fair value through profit and loss and fair value movements are recognised directly in the income statement. On transition to IFRS 9 this resulted in a material reclassification of the available for sale reserve to retained earnings. The amount reclassified on transition was £17.9 million.

Notes to the Group financial statements (continued)
31 December 2018

2 SIGNIFICANT ACCOUNTING POLICIES continued
At the date of authorisation of these financial statements, The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective and in some cases had not yet been adopted by the EU:

- IFRS 16 Leases
- IFRS 17 Insurance Contracts
- IFRS 4 (amendments) Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
- Annual Improvements to IFRSs: 2012–2014 Cycle
- IFRS 10 and IAS 28 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- IFRIC 23 Uncertainty over Income Tax Treatments

The Directors do not expect that the adoption of the standards listed above will have a material impact on the financial statements of the Group in future periods.

In relation to IFRS 16 (which has not yet been endorsed by the EU), as the Group is predominantly a lessor this standard will not have a material impact on adoption. Where the Group is currently a lessee, this relates to immaterial contracts.

2.2 BUSINESS COMBINATIONS
(I) SUBSIDIARY UNDERTAKINGS
Subsidiary undertakings are those entities controlled by the Group. Control is assumed when the Group has the power to govern the financial and operating policies of an entity or business to benefit from its activities. Subsidiaries are fully consolidated from the date on which control is transferred to the Group until the date control ceases. All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

(II) ASSOCIATES
Associates are those entities over which the Group has significant influence but which are not subsidiary undertakings or joint ventures. The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Investments in associates are carried in the balance sheet at cost as adjusted by post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments.

(III) GOODWILL
Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of identifiable assets and liabilities of a subsidiary or associate at the date of acquisition. It is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill which is recognised as an asset is reviewed for impairment at least annually.

2.3 NON CURRENT ASSETS HELD FOR SALE
Non current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Non current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after sale.

2 SIGNIFICANT ACCOUNTING POLICIES continued

2.4 FOREIGN CURRENCY

(I) FOREIGN CURRENCY TRANSACTIONS

Transactions in foreign currencies are translated into sterling using the exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into sterling at the exchange rate ruling at that date, and differences arising on translation are recognised in profit before tax.

In relation to financial assets measured at fair value through other comprehensive income, exchange differences on the amortised cost of the financial assets are recognised in profit or loss in the 'finance costs or finance income' line item. Other exchange differences are recognised in other comprehensive income in the fair value reserve. For financial assets measured at fair value through profit and loss, exchange differences are recognised in profit or loss in the 'finance costs or finance income' line item.

(II) CONSOLIDATION OF FOREIGN ENTITIES

The results and financial position of all Group entities which have a functional currency different from sterling are translated into sterling as follows:

(a) assets and liabilities are translated at the closing rate at the date of the balance sheet;
(b) income and expenses for each income statement are translated at the average exchange rates; and
(c) all resulting exchange differences are recognised directly in equity in the cumulative translation reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to the cumulative translation reserve. When a foreign operation is sold, such exchange differences are recognised as part of the gain or loss on sale in profit before tax.

2.5 INVESTMENT PROPERTIES

Investment properties are those properties held for long-term rental yields or for capital appreciation or both. Investment properties are measured initially at cost, including related transaction costs. Additions to investment properties comprise costs of a capital nature; in the case of investment properties under development, these include capitalised interest and certain staff costs directly attributable to the management of the development. Capitalised interest is calculated at the rate on associated borrowings applied to direct expenditure between the date of gaining planning consent and the date of practical completion. The acquisition of an investment property is recognised when the risks and rewards of ownership have been transferred to the Group, typically on unconditional exchange of contracts or when legal title passes. Profit on sale of an investment property is recognised when the risks and rewards of ownership have been transferred to the buyer, typically on unconditional exchange of contracts or when legal title passes.

Investment properties are carried at fair value, based on market value as determined by professional external valuers at the balance sheet date. Investment properties being redeveloped for continuing use as investment properties, or for which the market has become less active, continue to be classified as investment properties and measured at fair value. Changes in fair values are recognised in profit before tax.

2.6 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is carried at fair value, based on market value as determined by professional external valuers at the balance sheet date, except for fixtures and fittings and head office fit-out which are stated at historical cost less accumulated depreciation and any recognised impairment loss.

Notes to the Group financial statements (continued)
31 December 2018

2 SIGNIFICANT ACCOUNTING POLICIES continued

Land is not depreciated. Depreciation on property, plant and equipment is calculated using the straight-line method to allocate cost less estimated residual values over the estimated useful lives, as follows:

Fixtures and fittings	4–5 years
Freehold property	6 years
Head Office fit-out	10 years
Hotel	20 years

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in profit before tax.

2.7 FINANCIAL INSTRUMENTS

(I) DERIVATIVE FINANCIAL INSTRUMENTS

The Group uses derivative financial instruments, including swaps and interest rate caps, to help manage its interest rate and foreign exchange rate risk. Derivative financial instruments are recorded, and subsequently revalued, at fair value. Revaluation gains and losses are recognised in profit before tax, except for derivatives which qualify as effective cash flow hedges, the gains and losses relating to which are recognised in other comprehensive income.

(II) FINANCIAL ASSETS CLASSIFIED AS FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME ('FVTOCI')

Financial assets classified as at FVTOCI are initially measured at cost, and are subsequently revalued to fair value. Revaluation gains and losses are recognised in other comprehensive income, except for impairment losses and foreign exchange gains and losses on monetary assets. On disposal, the cumulative gain or loss previously recognised in other comprehensive income is recycled through profit before tax.

(III) FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS ('FVTLP')

Financial assets at FVTPL are initially measured at cost, and are subsequently revalued to fair value. Revaluation gains and losses are recognised in profit or loss.

(IV) CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash on hand, demand deposits and other short-term highly liquid investments which are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

(V) TRADE AND OTHER RECEIVABLES AND PAYABLES

Trade and other receivables are recognised initially at fair value. An impairment provision is created where there is objective evidence that the Group will not be able to collect the receivable in full. Trade and other payables are stated at cost, which equates to fair value.

(VI) BORROWINGS

Borrowings are recognised initially at fair value less attributable transaction costs. Subsequently, borrowings are stated at amortised cost with any difference between the amount initially recognised and the redemption value being recognised in profit before tax over the period of the borrowings, using the effective interest rate method.

2.8 REVENUE

(I) RENTAL INCOME

Rental income from operating leases is recognised on a straight-line basis over the lease term. The cost of incentives is recognised over the lease term, on a straight-line basis, as a reduction of rental income.

(II) SERVICE CHARGE INCOME

Service charge income is recognised on a gross basis in the accounting period in which the services are rendered.

2 SIGNIFICANT ACCOUNTING POLICIES continued

2.9 INCOME TAX

Current tax is based on taxable profit for the year and is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided using the balance sheet liability method on temporary differences between the carrying value of assets and liabilities for financial reporting purposes and the values used for tax purposes. Temporary differences are not provided for when they arise from initial recognition of goodwill or from the initial recognition of assets and liabilities in a transaction that does not affect accounting or taxable profit.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, and is calculated using rates that are expected to apply in the period when the liability is settled or the asset is realised, in the tax jurisdiction in which the temporary differences arise. Deferred tax is charged or credited in arriving at profit after tax, except when it relates to items recognised in other comprehensive income, in which case the deferred tax is also recognised in other comprehensive income.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the assets can be used. The deferred tax assets and liabilities are only offset if they relate to income taxes levied by the same taxation authority, there is a legally enforceable right of set-off and the Group intends to settle its current tax assets and liabilities on a net basis.

3 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

CRITICAL ACCOUNTING JUDGEMENTS

In accordance with IAS 1, the Directors have considered the judgements that have been made in the process of applying the Group's accounting policies, which are described in note 2, and which of those judgements have the most significant effect on amounts recognised in the financial statements.

In the opinion of the Directors, the following critical judgement was made for the year ended 31 December 2018:

DISCONTINUED OPERATIONS

Note 24 describes the proposed disposal of First Camp Sverige Holding (AB) ("First Camp") which is expected to complete in early 2019. This transaction has resulted in two significant judgements: first, the decision to treat First Camp as a discontinued operation in accordance with IFRS 5 *Non-Current Assets Held for Sale and Discontinued Operations*, as the transaction represents the exit of the Group's operational revenue earning activities in Sweden; and secondly, the recognition of a loss arising from the remeasurement of the investment to fair value less costs to sell. As a result of the reclassification of First Camp to discontinued operations, the 2017 comparative amounts in the group income statement, group statement of comprehensive income, group balance sheet, group statement of cash flows and respective notes have been restated as appropriate.

KEY SOURCES OF ESTIMATION UNCERTAINTY

The Group uses the valuations performed by its independent external valuers as the fair value of its investment properties. The valuations are based upon assumptions including future rental income, anticipated maintenance costs, future development costs and an appropriate discount rate (see note 13 for more detail). The valuers also make reference to market evidence of transaction prices for similar properties.

4 SEGMENT INFORMATION

The Group has two operating divisions – Investment Property and Other Investments. Other Investments comprise the hotel at Spring Mews, corporate bonds, shares in Catena AB and other small corporate investments. The Group manages the Investment Property division on a geographical basis due to its size and geographical diversity. Consequently, the Group's principal operating segments are:

Investment Property:	United Kingdom
	Germany
	France
	Sweden

Other Investments

Notes to the Group financial statements (continued)
31 December 2018

4 SEGMENT INFORMATION continued

The Group's results for the year ended 31 December 2018 by operating segment were as follows:

	Investment Property						
	United Kingdom £m	Germany £m	France £m	Sweden £m	Other Investments £m	Central Administration £m	Total £m
Rental income	**56.7**	**31.1**	**15.2**	**–**	**–**	**–**	**103.0**
Other property-related income	**2.0**	**0.1**	**0.4**	**–**	**4.4**	**–**	**6.9**
Service charge income	**8.2**	**9.5**	**5.4**	**–**	**–**	**–**	**23.1**
Revenue	**66.9**	**40.7**	**21.0**	**–**	**4.4**	**–**	**133.0**
Service charges and similar expenses	**(10.3)**	**(9.9)**	**(5.5)**	**–**	**–**	**–**	**(25.7)**
Net rental income	**56.6**	**30.8**	**15.5**	**–**	**4.4**	**–**	**107.3**
Administration expenses	**(6.7)**	**(3.0)**	**(1.9)**	**–**	**(0.6)**	**(5.6)**	**(17.8)**
Other expenses	**(5.7)**	**(3.5)**	**(1.0)**	**–**	**(3.0)**	**–**	**(13.2)**
Group revenue less costs	**44.2**	**24.3**	**12.6**	**–**	**0.8**	**(5.6)**	**76.3**
Net movements on revaluation of investment properties	**4.0**	**48.0**	**10.8**	**–**	**–**	**–**	**62.8**
Gain on revaluation of equity investments	**–**	**–**	**–**	**–**	**22.2**	**–**	**22.2**
Profit on sale of investment property	**1.9**	**0.3**	**0.1**	**–**	**–**	**–**	**2.3**
Gain on sale of corporate bonds	**–**	**–**	**–**	**–**	**1.7**	**–**	**1.7**
Segment operating profit/(loss)	**50.1**	**72.6**	**23.5**	**–**	**24.7**	**(5.6)**	**165.3**
Finance income	**–**	**–**	**–**	**–**	**6.1**	**–**	**6.1**
Finance costs	**(18.3)**	**(4.9)**	**(2.7)**	**–**	**(0.6)**	**–**	**(26.5)**
Segment profit/(loss) before tax	**31.8**	**67.7**	**20.8**	**–**	**30.2**	**(5.6)**	**144.9**

The Group's results for the year ended 31 December 2017 by operating segment were as follows:

	Investment Property						
	United Kingdom £m	Germany £m	France £m	Sweden £m	Other Investments £m	Central Administration £m	Total £m
Rental income	54.1	24.4	15.2	–	–	–	93.7
Other property-related income	2.8	0.6	0.5	–	4.4	–	8.3
Service charge income	7.2	5.9	5.2	–	–	–	18.3
Revenue	64.1	30.9	20.9	–	4.4	–	120.3
Service charges and similar expenses	(9.1)	(5.9)	(5.3)	–	–	–	(20.3)
Net rental income	55.0	25.0	15.6	–	4.4	–	100.0
Administration expenses	(6.0)	(1.8)	(1.7)	–	(0.4)	(4.7)	(14.6)
Other expenses	(6.2)	(2.5)	(0.7)	–	(2.8)	–	(12.2)
Group revenue less costs	42.8	20.7	13.2	–	1.2	(4.7)	73.2
Net movements on revaluation of investment properties	39.9	34.2	20.1	–	–	–	94.2
Profit/(loss) on sale of investment property	43.7	(0.1)	0.1	–	–	–	43.7
Gain on sale of corporate bonds	–	–	–	–	4.5	–	4.5
Permanent impairment of value of corporate bonds	–	–	–	–	(2.0)	–	(2.0)
Segment operating profit/(loss)	126.4	54.8	33.4	–	3.7	(4.7)	213.6
Finance income	–	–	–	2.2	7.8	–	10.0
Finance costs	(23.6)	(2.9)	(2.3)	–	(3.6)	–	(32.4)
Share of loss of associates after tax	–	–	–	–	(0.7)	–	(0.7)
Segment profit/(loss) before tax	102.8	51.9	31.1	2.2	7.2	(4.7)	190.5

4 SEGMENT INFORMATION continued

OTHER SEGMENT INFORMATION

	Assets		Liabilities		Capital expenditure	
	2018 £m	2017 £m	**2018 £m**	2017 £m	**2018 £m**	2017 £m
Investment Property						
United Kingdom	**981.0**	925.4	**463.5**	510.3	**82.0**	66.2
Germany	**643.4**	584.8	**347.5**	346.3	**2.3**	190.1
France	**315.9**	296.1	**218.4**	201.9	**5.7**	6.0
Sweden	**–**	10.6	**–**	8.1	**–**	–
Other Investments	**211.1**	269.4	**10.9**	12.6	**–**	2.3
	2,151.4	2,086.3	**1,040.3**	1,079.2	**90.0**	264.6

5 ADMINISTRATION COST RATIO

The administration cost ratio is a key performance indicator of the Group. It represents the cost of running the property portfolio relative to its net income, and is calculated as follows:

	2018 £m	2017 £m
Administration expenses of the Group	**17.8**	14.6
Less: administration expenses of Other Investments	**(0.6)**	(0.4)
Property-related and central administration expenses (A)	**17.2**	14.2
Net rental income (B)	**107.3**	100.0
Administration cost ratio (A divided by B)	**16.0%**	14.2%

6 PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging:

	2018 £m	2017 £m
Auditor's remuneration		
Fees payable to the Company's auditor for the audit of the Parent Company and Group accounts	**0.3**	0.4
Fees payable to the Company's auditor for:		
Audit of the Company's subsidiaries pursuant to legislation	**0.1**	0.1
Other services to the Group (interim review and tax services)	**0.1**	0.1
Depreciation of property, plant and equipment (note 14)	**1.0**	0.8
Employee benefits expense (note 7)	**12.2**	10.0
Net foreign exchange loss/(gain) (notes 8 and 9)	**0.6**	(1.8)
Impairment loss recognised on other financial instruments	**–**	2.0
Provision against trade receivables	**0.3**	0.6

Notes to the Group financial statements (continued)
31 December 2018

7 EMPLOYEE BENEFITS EXPENSE

	2018 £m	2017 £m
Wages and salaries	**8.9**	7.6
Social security costs	**0.9**	0.9
Pension costs – defined contribution plans	**0.5**	0.3
Performance incentive plan	**0.8**	0.4
Other employee-related expenses	**1.1**	0.8
	12.2	10.0

The Directors are considered to be key management of the Group.

Information on Directors' emoluments, share options and interests in the Company's shares is given in the Directors' Remuneration Report on pages 61 to 74.

The monthly average number of employees of the Group in continuing operations, including Executive Directors, was as follows:

	2018				2017			
	Property number	Hotel number	Other operations number	Total number	Property number	Hotel number	Other operations number	Total number
Male	**50**	**8**	**1**	**59**	43	8	1	52
Female	**48**	**10**	**–**	**58**	43	10	–	53
	98	**18**	**1**	**117**	86	18	1	105

8 FINANCE INCOME

	2018 £m	2017 £m
Interest income	**4.4**	6.8
Other finance income	**1.7**	1.4
Foreign exchange variances	**–**	1.8
	6.1	10.0

9 FINANCE COSTS

	2018 £m	2017 £m
Interest expense		
Bank loans	**17.9**	15.7
Debenture loan	**–**	2.4
Secured notes	**2.6**	2.8
Unsecured bonds	**2.0**	3.6
Amortisation of loan issue costs	**2.0**	1.6
Total interest costs	**24.5**	26.1
Less interest capitalised on development projects	**–**	(0.5)
	24.5	25.6
Loss on early redemption of debt	**3.7**	9.7
Movement in fair value of derivative financial instruments		
Interest rate swaps: transactions not qualifying as hedges	**(2.3)**	(2.9)
Foreign exchange variances	**0.6**	–
	26.5	32.4

10 TAXATION

	2018 £m	2017 £m
Current tax charge	**8.5**	17.7
Deferred tax charge (note 20)	**3.6**	15.8
	12.1	33.5

A deferred tax credit of £0.6 million (2017: £0.5 million) was recognised directly in equity (note 20).

The charge for the year differs from the theoretical amount which would arise using the weighted average tax rate applicable to profits of Group companies as follows:

	2018 £m	2017 £m
Profit before tax	**144.9**	190.5
Tax calculated at domestic tax rates applicable to profits in the respective countries	**28.3**	39.6
Expenses not deductible for tax purposes	**0.1**	0.2
Tax effect of fair value movements on investments	**(4.8)**	(0.1)
Change in tax basis of United Kingdom properties, including indexation uplift	**(0.6)**	(5.6)
Change in tax rate	**(7.8)**	–
Non-taxable income	**(0.7)**	(1.4)
Deferred tax on losses (recognised)/not recognised	**(0.9)**	1.5
Tax liability released on disposals	**–**	1.7
Adjustment in respect of prior periods	**(1.5)**	(2.4)
Tax charge for the year	**12.1**	33.5

The weighted average applicable tax rate of 19.5% (2017: 20.7%) was derived by applying to their relevant profits and losses the rates in the jurisdictions in which the Group operated.

The tax rate in France fell from 28% to 25% and in Sweden from 22% to 20.6%, the combined effect of which was a £7.8m reduction in the tax charge for the year.

11 EARNINGS PER SHARE

Management has chosen to disclose the European Public Real Estate Association (EPRA) measure of earnings per share which has been provided to give relevant information to investors on the long-term performance of the Group's underlying property investment business. The EPRA measure excludes items which are non-recurring in nature such as profits (net of related tax) on sale of investment properties and of other non-current investments, and items which have no impact to earnings over their life, such as the change in fair value of derivative financial instruments and the net movement on revaluation of investment properties, and the related deferred taxation on these items.

Earnings	2018 £m	2017 £m
Profit for the year attributable to owners of the Company	**124.3**	157.7
Net movements on revaluation of investment properties	**(62.8)**	(94.2)
Movements on revaluation of equity investments, net of foreign exchange	**(21.6)**	–
Loss/(profit) from discontinued operations	**8.5**	(0.7)
Loss on early redemption of debt, net of tax	**3.0**	7.9
Loss/(profit) on sale of investment properties, net of tax	**0.1**	(30.8)
Gain on sale of corporate bonds, net of tax	**(1.3)**	(3.6)
Change in fair value of derivative financial instruments	**(0.3)**	(2.9)
Permanent impairment of value of corporate bond, net of tax	**–**	1.6
Impairment of carrying value of associates	**–**	0.7
Deferred tax relating to the above adjustments	**3.6**	15.8
EPRA earnings	**53.5**	51.5

Notes to the Group financial statements (continued)
31 December 2018

11 EARNINGS PER SHARE continued

Weighted average number of ordinary shares	2018 Number	2017 Number
Weighted average number of ordinary shares in circulation	**407,395,760**	407,395,760

Earnings per Share	2018 Pence	2017 Pence
Basic and diluted	**30.5**	38.7
EPRA	**13.1**	12.6

12 NET ASSETS PER SHARE

Management has chosen to disclose the two European Public Real Estate Association (EPRA) measures of net assets per share: EPRA net assets per share and EPRA triple net assets per share. The EPRA net assets per share measure highlights the fair value of equity on a long-term basis, and so excludes items which have no impact on the Group in the long term, such as fair value movements of derivative financial instruments and deferred tax on the fair value of investment properties. The EPRA triple net assets per share measure discloses net assets per share on a true fair value basis: all balance sheet items are included at their fair value in arriving at this measure, including deferred tax, fixed-rate loan liabilities and any other balance sheet items not reported at fair value.

Net assets	2018 £m	2017 £m
Basic net assets attributable to owners of the Company	**1,122.2**	1,026.5
Adjustment to increase fixed rate debt to fair value, net of tax	**(5.3)**	(5.9)
Goodwill as a result of deferred tax	**(1.1)**	(1.1)
EPRA triple net assets	**1,115.8**	1,019.5
Deferred tax on property and other non-current assets, net of minority interest	**135.8**	131.8
Fair value of derivative financial instruments	**5.1**	6.2
Adjustment to decrease fixed rate debt to book value, net of tax	**5.3**	5.9
EPRA net assets	**1,262.0**	1,163.4

Number of ordinary shares	2018 Number	2017 Number
Number of ordinary shares in circulation	**407,395,760**	407,395,760

Net assets per share	2018 Pence	2017 Pence
Basic	**275.5**	252.0
EPRA	**309.8**	285.6
EPRA triple net	**273.9**	250.2

13 INVESTMENT PROPERTIES

	United Kingdom £m	Germany £m	France £m	Total £m
At 1 January 2018	**895.0**	**568.4**	**290.0**	**1,753.4**
Acquisitions	**67.6**	**–**	**2.4**	**70.0**
Capital expenditure	**12.4**	**2.3**	**3.3**	**18.0**
Disposals	**(27.2)**	**(1.6)**	**(2.4)**	**(31.2)**
Net movement on revaluation of investment properties	**3.9**	**48.1**	**10.8**	**62.8**
Rent-free period debtor adjustments	**0.4**	**4.4**	**0.2**	**5.0**
Exchange rate variances	**–**	**7.8**	**3.8**	**11.6**
Transfer from/(to) properties held for sale	**2.0**	**(3.5)**	**–**	**(1.5)**
At 31 December 2018	**954.1**	**625.9**	**308.1**	**1,888.1**

13 INVESTMENT PROPERTIES continued

	United Kingdom £m	Germany £m	France £m	Total £m
At 1 January 2017	921.3	356.9	258.4	1,536.6
Acquisitions	49.9	187.7	0.9	238.5
Capital expenditure	15.4	2.4	5.1	22.9
Disposals	(120.6)	(25.5)	(7.1)	(153.2)
Net movement on revaluation of investment properties	39.9	34.2	20.1	94.2
Rent-free period debtor adjustments	1.0	1.0	1.5	3.5
Exchange rate variances	–	17.7	11.1	28.8
Transfer to properties held for sale	(11.9)	(6.0)	–	(17.9)
At 31 December 2017	895.0	568.4	290.0	1,753.4

The investment properties, properties held for sale and the hotel and landholding detailed in note 14 were revalued at 31 December 2018 to their fair value. Valuations were based on current prices in an active market for all properties. The property valuations were carried out by external, professionally qualified valuers as follows:

United Kingdom: Cushman and Wakefield
Germany: Cushman and Wakefield
France: Jones Lang LaSalle

Property valuations are complex and require a degree of judgement and are based on data which is not publicly available. Consistent with EPRA guidance, we have classified the valuations of our property portfolio as level 3 as defined by IFRS 13 *Fair Value Measurement*. Inputs into the valuations include equivalent yields and rental income and are 'unobservable' under the definition in IFRS 13. These inputs are analysed by segment in the property portfolio information on the inside front cover. All other factors remaining constant, an increase in rental income would increase valuations, whilst an increase in the true equivalent yield would result in a fall in value, and vice versa.

KEY INPUTS TO THE VALUATION

	ERV		True equivalent yield	
	Average £ per sq ft	Range per sq ft	Average %	Range %
UK	30.81	8.50-60.00	5.76%	3.3%-10.75%
Germany	12.07	8.61-17.14	5.30%	4.63%-6.00%
France	23.28	10.50-48.97	5.23%	3.30%-7.75%

A decrease in the true equivalent yield by 25 basis points would result in an increase in the fair value of the Group's investment property by £101.1 million, whilst a 25 basis point increase would reduce the fair value by £101.6 million.

Investment properties included leasehold properties with a carrying amount of £73.3 million (2017: £73.1 million).

Interest capitalised within capital expenditure in the year amounted to £nil (2017: £0.5 million).

Where the Group leases out its investment property under operating leases the duration is typically three years or more. No contingent rents have been recognised in either the current or the comparative year.

Around 85% of investment properties (and the hotel detailed in note 14) are secured against debt.

Notes to the Group financial statements (continued)
31 December 2018

14 PROPERTY, PLANT AND EQUIPMENT

	Hotel £m	Land and buildings £m	Owner-occupied property £m	Fixtures and fittings £m	Total £m
Cost or valuation					
At 1 January 2017	27.1	72.5	5.9	4.9	110.4
Transfer to discontinued operations	–	(70.3)	–	(1.0)	(71.3)
Restated at 1 January 2017	27.1	2.2	5.9	3.9	39.1
Additions	–	2.3	–	0.9	3.2
Disposals	–	–	(5.9)	–	(5.9)
Revaluation	0.5	(1.4)	–	–	(0.9)
Exchange rate variances	–	1.5	–	–	1.5
At 31 December 2017	**27.6**	**4.6**	**–**	**4.8**	**37.0**
Additions	**–**	**–**	**–**	**2.0**	**2.0**
Disposals	**–**	**–**	**–**	**(1.1)**	**(1.1)**
Revaluation	**0.6**	**(1.0)**	**–**	**–**	**(0.4)**
Exchange rate variances	**–**	**(0.1)**	**–**	**–**	**(0.1)**
At 31 December 2018	**28.2**	**3.5**	**–**	**5.7**	**37.4**
Comprising:					
At cost	**–**	**–**	**–**	**5.7**	**5.7**
At valuation	**28.2**	**3.5**	**–**	**–**	**31.7**
	28.2	**3.5**	**–**	**5.7**	**37.4**
Accumulated depreciation and impairment					
At 1 January 2017	(0.4)	(0.8)	(0.2)	(2.6)	(4.0)
Transfer to discontinued operations	–	0.8	–	0.2	1.0
Restated at 1 January 2017	(0.4)	–	(0.2)	(2.4)	(3.0)
Disposals	–	–	0.2	–	0.2
Depreciation charge	(0.2)	–	–	(0.6)	(0.8)
At 31 December 2017	**(0.6)**	**–**	**–**	**(3.0)**	**(3.6)**
Disposals	**–**	**–**	**–**	**0.9**	**0.9**
Depreciation charge	**(0.2)**	**–**	**–**	**(0.8)**	**(1.0)**
At 31 December 2018	**(0.8)**	**–**	**–**	**(2.9)**	**(3.7)**
Net book value					
At 31 December 2018	**27.4**	**3.5**	**–**	**2.8**	**33.7**
At 31 December 2017	27.0	4.6	–	1.8	33.4

A hotel and a landholding were revalued at each balance sheet date based on the external valuation performed by Cushman and Wakefield and L Fällström AB, respectively.

15 INVESTMENTS IN ASSOCIATES

	2018 £m	2017 £m
At 1 January	**–**	0.2
Conversion of convertible loan into shares	**–**	0.5
Impairment	**–**	(0.7)
At 31 December	**–**	–

A convertible loan to Nyheter 24 Media Network AB was converted into equity on 26 November 2017 at the option of the borrower.

16 OTHER FINANCIAL INVESTMENTS

	Investment type	Destination of investment	2018 £m	2017 £m
Carried at fair value through other comprehensive income [1]	Listed corporate bonds	UK	**7.1**	11.5
		Eurozone	**–**	6.3
		Other	**23.2**	47.7
			30.3	65.5
Carried at fair value through profit and loss [1]	Listed equity securities	Sweden	**77.5**	55.9
	Unlisted investments	Sweden	**–**	0.2
			107.8	121.6

The movement of other financial investments, analysed based on the methods used to measure their fair value, was as follows:

	Level 1 Quoted market prices £m	Level 2 Observable market data £m	Level 3 Other valuation methods[2] £m	Total £m
At 1 January 2018	**55.9**	**65.5**	**0.2**	**121.6**
Additions	**–**	**39.7**	**–**	**39.7**
Disposals	**–**	**(67.8)**	**(0.2)**	**(68.0)**
Fair value movements recognised in other comprehensive income	**–**	**(7.4)**	**–**	**(7.4)**
Fair value movements recognised in profit before tax	**22.2**	**(0.4)**	**–**	**21.8**
Exchange rate variations	**(0.6)**	**0.7**	**–**	**0.1**
At 31 December 2018	**77.5**	**30.3**	**–**	**107.8**

	Level 1 Quoted market prices £m	Level 2 Observable market data £m	Level 3 Other valuation methods[1] £m	Total £m
At 1 January 2017	50.8	65.1	0.5	116.4
Transfer to discontinued operations	–	–	(0.2)	(0.2)
Restated at 1 January 2017	50.8	65.1	0.3	116.2
Additions	–	11.9	–	11.9
Disposals	(3.5)	(9.6)	–	(13.1)
Fair value movements recognised in other comprehensive income	9.8	4.1	–	13.9
Fair value movements recognised in profit before tax	(1.6)	(1.3)	–	(2.9)
Exchange rate variations	0.4	(4.7)	(0.1)	(4.4)
At 31 December 2017	55.9	65.5	0.2	121.6

1 The adoption of IFRS9 from 1 January 2018 has resulted in Other Financial Investments previously disclosed as Available for Sale Financial Assets being reclassified to either carried at fair value through other comprehensive income or carried at fair value through profit and loss. The financial impact of this change is disclosed in Note 2.1.

2 Unlisted equity shares are valued using multiples from comparable listed organisations.

Notes to the Group financial statements (continued)
31 December 2018

16 OTHER FINANCIAL INVESTMENTS continued
CORPORATE BOND PORTFOLIO
At 31 December 2018

Sector	Banking	Insurance	Travel and tourism	Telecoms and IT	Energy and resources	Other	Total
Value	£11.8m	£2.3m	£3.3m	£7.3m	£1.4m	£4.2m	£30.3m
Running yield	8.0%	6.9%	7.5%	8.1%	10.1%	4.2%	7.5%
Issuers	RBS HSBC Lloyds Barclays Unicredit Standard Chartered Credit Agricole Societe Generale	PGH Capital Brit Insurance	Hertz Stena	Dell Xerox Seagate Centurylink Telecom Italia	Transocean	Stora Enso Yum! Brands Liberty Interactive	

17 TRADE AND OTHER RECEIVABLES

	2018 £m	2017 £m
Current		
Trade receivables	**4.2**	2.9
Prepayments	**2.0**	1.6
Accrued income	**2.1**	1.5
Other debtors	**4.0**	2.7
	12.3	8.7

There was no concentration of credit risk with respect to trade receivables as the Group had a large number of customers spread across the countries in which it operated.

There were no material trade and other receivables classified as past due but not impaired (2017: nil). No trade and other receivables were interest-bearing.

18 CASH AND CASH EQUIVALENTS

	2018 £m	2017 £m
Cash at bank and in hand	**100.3**	140.5
Cash held on behalf of third parties	**–**	5.5
	100.3	146.0

At 31 December 2018, Group cash at bank and in hand included £21.8 million (2017: £17.6 million) which was restricted by a third-party charge.

At 31 December 2017 the Group held, on behalf of a third party, cash which was paid to the third party in January 2018. As the Group held no beneficial interest in this cash at 31 December 2017 it was excluded from the group cash flow statement and all other cash and gearing metrics.

19 TRADE AND OTHER PAYABLES

	2018 £m	2017 £m
Current		
Trade payables	**6.1**	2.4
Social security and other taxes	**1.8**	3.2
Other payables	**11.4**	16.0
Accruals	**17.9**	19.5
Deferred income	**14.7**	13.3
	51.9	54.4

20 DEFERRED TAX

	2018 £m	2017 £m
Deferred tax assets:		
– after more than 12 months	**(3.5)**	(3.3)
Deferred tax liabilities:		
– after more than 12 months	**139.3**	135.1
	135.8	131.8

The movement in deferred tax was as follows:

	2018 £m	2017 £m
At 1 January	**131.8**	117.6
Charged in arriving at profit after tax	**3.6**	15.8
Credited to other comprehensive income	**(0.6)**	(0.5)
Transfer to discontinued operations	**–**	(4.2)
Exchange rate variances	**1.0**	3.1
At 31 December	**135.8**	131.8

The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, was as follows:

Deferred tax assets	**Other £m**	**Total £m**
At 1 January 2018	**(3.3)**	**(3.3)**
Charged in arriving at profit after tax	**0.1**	**0.1**
Credited to other comprehensive income	**(0.3)**	**(0.3)**
At 31 December 2018	**(3.5)**	**(3.5)**

Deferred tax assets	Other £m	Total £m
At 1 January 2017	(3.1)	(3.1)
Credited in arriving at profit after tax	(1.0)	(1.0)
Charged to other comprehensive income	0.8	0.8
At 31 December 2017	(3.3)	(3.3)

Notes to the Group financial statements (continued)
31 December 2018

20 DEFERRED TAX continued

Deferred tax liabilities	**UK capital allowances £m**	**Fair value adjustments to properties £m**	**Other £m**	**Total £m**
At 1 January 2018	**10.4**	**122.0**	**2.7**	**135.1**
Charged/(credited) in arriving at profit after tax	**0.6**	**3.3**	**(0.4)**	**3.5**
Charged/(credited) to other comprehensive income	**–**	**0.3**	**(0.6)**	**(0.3)**
Exchange rate variances	**–**	**1.0**	**–**	**1.0**
At 31 December 2018	**11.0**	**126.6**	**1.7**	**139.3**

Deferred tax liabilities	UK capital allowances £m	Fair value adjustments to properties £m	Other £m	Total £m
At 1 January 2017	11.1	106.9	2.7	120.7
(Credited)/charged in arriving at profit after tax	(0.7)	16.9	0.6	16.8
Credited to other comprehensive income	–	(0.6)	(0.7)	(1.3)
Transfer to discontinued operations	–	(4.2)	–	(4.2)
Exchange rate variances	–	3.0	0.1	3.1
At 31 December 2017	10.4	122.0	2.7	135.1

Deferred tax has been calculated at a weighted average across the Group of 18.2% (2017: 19.6%), and has been based on the rates applicable under legislation substantively enacted at the balance sheet date.

Deferred tax assets are recognised in respect of tax losses carried forward to the extent that the realisation of the related tax benefit through future taxable profits is probable. At 31 December 2018 the Group did not recognise deferred tax assets of £1.1 million (2017: £8.2 million) in respect of losses amounting to £6.0 million (2017: £30.4 million) which can be carried forward against future taxable income or gains. The majority of deferred tax assets recognised within the "other" category relate either to deferred tax on swaps with a negative book value or to corporate bonds carried at below cost. Losses recognised as deferred tax assets can be carried forward without restriction.

21 BORROWINGS

	At 31 December 2018			At 31 December 2017		
	Current £m	**Non-current £m**	**Total borrowings £m**	Current £m	Non-current £m	Total borrowings £m
Bank loans	**62.2**	**716.0**	**778.2**	92.3	651.2	743.5
Unsecured bonds	**–**	**–**	**–**	–	65.0	65.0
Secured notes	**4.1**	**54.6**	**58.7**	4.1	58.7	62.8
	66.3	**770.6**	**836.9**	96.4	774.9	871.3

Arrangement fees of £5.4 million (2017: £5.4 million) have been offset in arriving at the balances in the above tables.

BANK LOANS

Interest on bank loans is charged at fixed rates ranging between 0.8% and 5.5%, including margin (2017: 0.8% and 5.5%) and at floating rates of typically LIBOR or EURIBOR plus a margin. Floating rate margins range between 1.0% and 2.5% (2017: 0.9% and 2.8%). All bank loans are secured by legal charges over the respective properties, and in most cases a floating charge over the remainder of the assets held in the company which owns the property. In addition, the share capital of some of the subsidiaries within the Group has been charged.

21 BORROWINGS continued

UNSECURED BONDS

The £65.0 million unsecured retail bonds, which attracted a fixed rate coupon of 5.5% and were due for repayment in 2019, were redeemed in full in July 2018. The bonds had been listed on the London Stock Exchange's Order book for Retail Bonds.

SECURED NOTES

On 3 December 2013, the Group issued £80.0 million secured, partially-amortising notes. The notes attract a fixed-rate coupon of 4.17% on the unamortised principal, the balance of which is repayable in December 2022.

The maturity profile of the carrying amount of the Group's borrowings was as follows:

At 31 December 2018	**Bank loans £m**	**Unsecured bonds £m**	**Secured notes £m**	**Total £m**
Within one year or on demand	**64.0**	**–**	**4.2**	**68.2**
More than one but not more than two years	**132.1**	**–**	**4.2**	**136.3**
More than two but not more than five years	**443.0**	**–**	**50.7**	**493.7**
More than five years	**144.1**	**–**	**–**	**144.1**
	783.2	**–**	**59.1**	**842.3**
Unamortised issue costs	**(5.0)**	**–**	**(0.4)**	**(5.4)**
Borrowings	**778.2**	**–**	**58.7**	**836.9**
Less amount due for settlement within 12 months	**(62.2)**	**–**	**(4.1)**	**(66.3)**
Amounts due for settlement after 12 months	**716.0**	**–**	**54.6**	**770.6**

At 31 December 2017	Bank loans £m	Unsecured bonds £m	Secured notes £m	Total £m
Within one year or on demand	93.8	–	4.2	98.0
More than one but not more than two years	53.6	65.0	4.2	122.8
More than two but not more than five years	498.2	–	54.9	553.1
More than five years	102.8	–	–	102.8
	748.4	65.0	63.3	876.7
Unamortised issue costs	(4.9)	–	(0.5)	(5.4)
Borrowings	743.5	65.0	62.8	871.3
Less amount due for settlement within 12 months	(92.3)	–	(4.1)	(96.4)
Amounts due for settlement after 12 months	651.2	65.0	58.7	774.9

The interest rate risk profile of the Group's fixed rate borrowings was as follows:

	At 31 December 2018		At 31 December 2017	
	Weighted average fixed rate of financial liabilities %	**Weighted average period for which rate is fixed Years**	Weighted average fixed rate of financial liabilities %	Weighted average period for which rate is fixed Years
Sterling	**3.9**	**3.7**	4.5	3.5
Euro	**1.5**	**4.4**	1.4	5.1

Notes to the Group financial statements (continued)
31 December 2018

21 BORROWINGS continued

The interest rate risk profile of the Group's floating rate borrowings was as follows:

	At 31 December 2018			At 31 December 2017		
	% of net floating rate loans capped	Average capped interest rate %	Average tenure Years	% of net floating rate loans capped	Average capped interest rate %	Average tenure Years
Sterling	–	–	–	6	3.0	0.5
Euro	9	2.4	1.9	14	2.7	1.6

The carrying amounts of the Group's borrowings are denominated in the following currencies:

	At 31 December 2018			At 31 December 2017		
	Fixed rate financial liabilities £m	Floating rate financial liabilities £m	Total £m	Fixed rate financial liabilities £m	Floating rate financial liabilities £m	Total £m
Sterling	164.4	215.3	379.7	149.5	278.2	427.7
Euro	347.6	109.6	457.2	233.5	210.1	443.6
	512.0	324.9	836.9	383.0	488.3	871.3

The carrying amounts and fair values of the Group's borrowings are as follows:

	Carrying amounts		Fair values	
	2018 £m	2017 £m	2018 £m	2017 £m
Current borrowings	66.3	96.4	66.3	66.3
Non-current borrowings	770.6	774.9	777.0	784.6
	836.9	871.3	843.3	850.9

The valuation methods used to measure the fair values of the Group's borrowings were derived from inputs which were either observable as prices or derived from prices (Level 2).

Arrangement fees of £5.4 million (2017: £5.4 million) have been offset in arriving at the balances in the above table.

The fair value of non-current borrowings represents the amount at which a financial instrument could be exchanged in an arm's length transaction between informed and willing parties, discounted at the prevailing market rate, and excludes accrued interest.

The Group has the following undrawn committed facilities available at 31 December:

	2018 £m	2017 £m
Floating rate:		
– expiring within one year	7.6	63.1
– expiring after one year	30.0	–
	37.6	63.1

22 DERIVATIVE FINANCIAL INSTRUMENTS

	2018 Assets £m	2018 Liabilities £m	2017 Assets £m	2017 Liabilities £m
Non-current				
Interest rate caps and swaps	–	**(4.6)**	0.1	(6.9)
Current				
Forward foreign exchange contracts	–	**(0.5)**	0.6	–
	–	**(5.1)**	0.7	(6.9)

The valuation methods used to measure the fair value of all derivative financial instruments were derived from inputs which were either observable as prices or derived from prices (Level 2).

There were no derivative financial instruments accounted for as hedging instruments.

INTEREST RATE SWAPS

The aggregate notional principal of interest rate swap contracts at 31 December 2018 was £154.9 million (2017: £158.0 million). The average period to maturity of these interest rate swaps was 2.9 years (2017: 3.9 years).

FORWARD FOREIGN EXCHANGE CONTRACTS

The Group uses forward foreign exchange contracts from time to time to add certainty to, and to minimise the impact of foreign exchange movements on, committed cash flows. At 31 December 2018 the Group had £15.6 million of outstanding net foreign exchange contracts (2017: £23.3 million).

23 FINANCIAL INSTRUMENTS

CATEGORIES OF FINANCIAL INSTRUMENTS

Financial assets of the Group comprise: interest rate caps; foreign currency forward contracts; financial assets at fair value through other comprehensive income or fair value through profit and loss; investments in associates; trade and other receivables; and cash and cash equivalents.

Financial liabilities of the Group comprise: interest rate swaps; forward foreign currency contracts; bank loans; unsecured bonds; secured notes; trade and other payables; and current tax liabilities.

The fair values of financial assets and liabilities are determined as follows:

(a) Interest rate swaps and caps are measured at the present value of future cash flows based on applicable yield curves derived from quoted interest rates.
(b) Foreign currency options and forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts.
(c) The fair values of non-derivative financial assets and liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices. Financial assets in this category include financial assets at fair value through other comprehensive income or fair value through profit and loss such as listed corporate bonds and equity investments.
(d) In more illiquid conditions, non-derivative financial assets are valued using multiple quotes obtained from market makers and from pricing specialists. Where the spread of prices is tightly clustered the consensus price is deemed to be fair value. Where prices become more dispersed or there is a lack of available quoted data, further procedures are undertaken such as evidence from the last non-forced trade.
(e) The fair values of other non-derivative financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis, using prices from observable current market transactions and dealer quotes for similar instruments.

Notes to the Group financial statements (continued)
31 December 2018

23 FINANCIAL INSTRUMENTS continued

Except for investments in associates and fixed rate loans, the carrying amounts of financial assets and liabilities recorded at amortised cost approximate to their fair value.

CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities within the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of debt and equity balances. The capital structure of the Group consists of debt, cash and cash equivalents, other investments and equity attributable to the owners of the parent, comprising issued capital, reserves and retained earnings. Management perform "stress tests" of the Group's business model to ensure that the Group's objectives can be met. The objectives have been met in the year.

The Directors review the capital structure on a quarterly basis to ensure that key strategic goals are being achieved. As part of this review they consider the cost of capital and the risks associated with each class of capital.

The gearing ratio at the year end was as follows:

	2018 £m	2017 £m
Debt	**842.3**	876.7
Liquid resources	**(130.6)**	(206.0)
Net debt	**711.7**	670.7
Equity	**1,123.0**	1,033.3
Net debt to equity ratio	**63%**	65%

Debt is defined as long-term and short-term borrowings before unamortised issue costs as detailed in note 21. Liquid resources are cash and short-term deposits and listed corporate bonds. Equity includes all capital and reserves of the Group attributable to the owners of the Company.

EXTERNALLY IMPOSED CAPITAL REQUIREMENT

The Group was subject to externally imposed capital requirements to the extent that debt covenants may require Group companies to maintain ratios such as debt to equity (or similar) below certain levels.

RISK MANAGEMENT OBJECTIVES

The Group's activities expose it to a variety of financial risks, which can be grouped as:

- market risk
- credit risk
- liquidity risk

The Group's overall risk management approach seeks to minimise potential adverse effects on the Group's financial performance whilst maintaining flexibility.

Risk management is carried out by the Group's treasury department in close co-operation with the Group's operating units and with guidance from the Board of Directors. The Board regularly assesses and reviews the financial risks and exposures of the Group.

(A) MARKET RISK

The Group's activities expose it primarily to the financial risks of changes in interest rates and foreign currency exchange rates, and to a lesser extent other price risk. The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign currency risk and also uses natural hedging strategies such as matching the duration, interest payments and currency of assets and liabilities.

23 FINANCIAL INSTRUMENTS continued

(i) Interest rate risk

The Group's most significant interest rate risk arises from its long-term variable rate borrowings. Interest rate risk is regularly monitored by the treasury department and by the Board on both a country and a Group basis. The Board's policy is to mitigate variable interest rate exposure whilst maintaining the flexibility to borrow at the best rates and with consideration to potential penalties on termination of fixed rate loans. To manage its exposure the Group uses interest rate swaps, interest rate caps and natural hedging from cash held on deposit.

In assessing risk, a range of scenarios is taken into consideration such as refinancing, renewal of existing positions and alternative financing and hedging. Under these scenarios, the Group calculates the impact on the income statement for a defined movement in the underlying interest rate. The impact of a reasonably likely movement in interest rates, based on historic trends, is set out below:

Scenario	**2018 Income statement £m**	2017 Income statement £m
Cash +50 basis points	**0.5**	0.7
Variable borrowings (including caps) +50 basis points	**(1.7)**	(2.4)
Cash -50 basis points	**(0.5)**	(0.7)
Variable borrowings (including caps) -50 basis points	**1.1**	1.4

(ii) Foreign exchange risk

The Group does not have any regular transactional foreign exchange exposure. However, it has operations in Europe which transact business denominated in euros and, to a lesser extent, in Swedish krona. Consequently, there is currency exposure caused by translating into sterling the local trading performance and net assets for each financial period and balance sheet, respectively.

The policy of the Group is to match the currency of investments with the related borrowing, which largely eliminates foreign exchange risk on property investments. A portion of the remaining operations, equating to the net assets of the foreign property operations, is not hedged except in exceptional circumstances, such as the uncertainty surrounding the euro in late 2011. Where foreign exchange risk arises from future commercial transactions, the Group will hedge the future committed commercial transaction using foreign exchange swaps or forward foreign exchange contracts.

The Group's principal currency exposures are in respect of the euro and the Swedish krona. If the value of sterling were to increase or decrease in strength the Group's net assets and profit for the year would be affected. The impact of a reasonably likely movement in exchange rates, based on historic trends, is set out below:

Scenario	**2018 Net assets £m**	**2018 Profit before tax £m**	2017 Net assets £m	2017 Profit before tax £m
1% increase in value of sterling against the euro	**(4.5)**	**(0.8)**	(3.6)	(0.8)
1% increase in value of sterling against the Swedish krona	**(0.3)**	**–**	(0.3)	–
1% fall in value of sterling against the euro	**4.5**	**0.8**	3.6	0.8
1% fall in value of sterling against the Swedish krona	**0.3**	**–**	0.3	–

(iii) Other price risk

The Group is exposed to corporate bond price risk and to equity securities price risk, because of investments held by the Group and classified in the balance sheet as financial assets at fair value through other comprehensive income or fair value through profit and loss.

In order to manage the risk in relation to the holdings of corporate bonds and equity securities the Group holds a diversified portfolio. Diversification of the portfolio is managed in accordance with the limits set by the Group.

Notes to the Group financial statements (continued)
31 December 2018

23 FINANCIAL INSTRUMENTS continued

The table below shows the effect on other comprehensive income which would result from an increase or decrease of 10% in the market value of corporate bonds and listed equity securities, which is an amount management believes to be reasonable in the current market:

Scenario: Shift of 10% in valuations	**2018 Other comprehensive income £m**	2017 Other comprehensive income £m
10% fall in value	**(10.8)**	(12.1)
10% increase in value	**10.8**	12.1

(B) CREDIT RISK

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. Credit risk arises from the ability of customers to meet outstanding receivables and future lease commitments, and from financial institutions with which the Group places cash and cash equivalents, and enters into derivative financial instruments. The maximum exposure to credit risk is partly represented by the carrying amounts of the financial assets which are carried in the balance sheet, including derivatives with positive fair values.

For credit exposure other than to occupiers, the Directors believe that counterparty risk is minimised to the fullest extent possible as the Group has policies which limit the amount of credit exposure to any individual financial institution.

The Group has policies in place to ensure that rental contracts are made with customers with an appropriate credit history. Credit risk to customers is assessed by a process of internal and external credit review, and is reduced by obtaining bank guarantees from the customer or its parent, and rental deposits. The overall credit risk in relation to customers is monitored on an ongoing basis. Moreover, a significant proportion of the Group portfolio is let to Government occupiers which can be considered financially secure.

At 31 December 2018 the Group held £107.8 million (2017: £121.6 million) of financial assets at fair value through other comprehensive income or fair value through profit and loss. Management considers the credit risk associated with individual transactions and monitors the risk on a continuing basis. Information is gathered from external credit rating agencies and other market sources to allow management to react to any perceived change in the underlying credit risk of the instruments in which the Group invests. This allows the Group to minimise its credit exposure to such items and at the same time to maximise returns for shareholders.

The table below shows the external Standard & Poor's credit banding on the financial assets at fair value through other comprehensive income or fair value through profit and loss held by the Group:

S&P credit rating at balance sheet date	**2018 £m**	2017 £m
Investment grade	**5.0**	6.7
Non-investment grade	**24.6**	52.7
Not rated	**78.2**	62.2
Total	**107.8**	121.6

23 FINANCIAL INSTRUMENTS continued

(C) LIQUIDITY RISK

Liquidity risk management requires maintaining sufficient cash, other liquid assets and the availability of funding to meet short, medium and long-term requirements. The Group maintains adequate levels of liquid assets to fund operations and to allow the Group to react quickly to potential opportunities.

Management monitors rolling forecasts of the Group's liquidity on the basis of expected cash flows so that future requirements can be managed effectively.

The majority of the Group's debt is arranged on an asset-specific, non-recourse basis. This allows the Group a higher degree of flexibility in dealing with potential covenant defaults than if the debt was arranged under a Group-wide borrowing facility.

Loan covenant compliance is closely monitored by the treasury department. Potential covenant breaches can ordinarily be avoided by placing additional security or a cash deposit with the lender, or by partial repayment to cure an event of default.

The table below analyses the Group's contractual undiscounted cash flows payable under financial liabilities and derivative assets and liabilities at the balance sheet date, into relevant maturity groupings based on the period remaining to the contractual maturity date. Amounts due within one year are equivalent to the carrying values in the balance sheet as the impact of discounting is not significant.

At 31 December 2018	**Less than 1 year £m**	**1 to 2 years £m**	**2 to 5 years £m**	**Over 5 years £m**
Non-derivative financial liabilities:				
Borrowings	**68.2**	**136.3**	**493.7**	**144.1**
Interest payments on borrowings[1]	**20.5**	**18.8**	**22.7**	**3.8**
Trade and other payables	**51.9**	**–**	**–**	**–**
Forward foreign exchange contracts:				
Cash flow hedges				
– Outflow	**(0.5)**	**–**	**–**	**–**
– Inflow	**0.5**	**–**	**–**	**–**

At 31 December 2017	Less than 1 year £m	1 to 2 years £m	2 to 5 years £m	Over 5 years £m
Non-derivative financial liabilities:				
Borrowings	98.0	122.8	553.1	102.8
Interest payments on borrowings[1]	26.9	27.2	24.4	26.3
Trade and other payables	48.9	–	–	–
Forward foreign exchange contracts:				
Cash flow hedges				
– Outflow	0.6	–	–	–
– Inflow	0.6	–	–	–

1 Interest payments on borrowings are calculated without taking into account future events. Floating rate interest is estimated using a future interest rate curve as at 31 December.

Notes to the Group financial statements (continued)
31 December 2018

24 DISCONTINUED OPERATIONS
On 12 November 2018, the Board resolved to dispose of First Camp Svergie Holdings AB and on 19 January 2019 contracts were exchanged with a view to a sale in early 2019. The operations of the First Camp sub-group, therefore, have been classified as a disposal group held for sale in accordance with IFRS 5, *Non Current Assets Held for Sale and Discontinued Operations*, and presented separately on the Group balance sheet as discontinued operations. The proceeds of disposal are expected to be less than the book value of the related net assets and accordingly an impairment loss has been recognised on the re-classification of these operations as held for sale.

The results of the discontinued operations, which have been included in the Group income statement, were as follows:

	2018 £m	2017 £m
Revenue	**15.8**	13.1
Expenses	**(12.7)**	(12.2)
Profit before tax	**3.1**	0.9
Loss recognised on measurement to fair value less costs to sell	**(17.9)**	–
Attributable tax expense	**(0.1)**	–
(Loss)/profit from discontinued operations	**(14.9)**	0.9
Attributable to:		
Owners of the Company	**(8.5)**	0.7
Non-controlling interests	**(6.4)**	0.2
	(14.9)	0.9

During the year, First Camp Svergie Holdings AB contributed £1.0 million (2017: absorbed £0.3 million) to the Group's net operating cash flows.

The major classes of assets and liabilities comprising the operations classified as held for sale are as follows:

	2018 £m	2017 £m
Property, plant and equipment	**54.0**	69.5
Cash and cash equivalents	**1.1**	0.7
Other assets	**1.0**	0.9
Total assets of discontinued operations	**56.1**	71.1
Trade and other payables	**(5.3)**	(4.5)
Borrowings	**(35.6)**	(37.6)
Deferred income tax liabilities	**(3.4)**	(2.8)
Total liabilities of discontinued operations	**(44.3)**	(44.9)
Net assets of discontinued operations classified as held for sale	**11.8**	26.2

25 SHARE CAPITAL

	Number					
	Ordinary shares in circulation	**Treasury shares**	**Total ordinary shares**	**Ordinary shares in circulation £m**	**Treasury shares £m**	**Total ordinary shares £m**
At 1 January 2018 and 31 December 2018	**407,395,760**	**31,382,020**	**438,777,780**	**10.2**	**0.8**	**11.0**

	Number					
	Ordinary shares in circulation	Treasury shares	Total ordinary shares	Ordinary shares in circulation £m	Treasury shares £m	Total ordinary shares £m
At 1 January 2017	40,739,576	3,138,202	43,877,778	10.2	0.8	11.0
Issued on subdivision	366,656,184	28,243,818	394,900,002	–	–	–
At 31 December 2017	407,395,760	31,382,020	438,777,780	10.2	0.8	11.0

On 8 May 2017, each of the existing ordinary shares of 25 pence each was subdivided into ten new ordinary shares of 2.5 pence each.

26 DISTRIBUTIONS TO SHAREHOLDERS

An interim dividend for 2018 of 2.20 pence (2017: 2.05 pence) per ordinary share of 2.50 pence, or £9.0 million (2017: £8.4 million), was paid on 28 September 2018. The proposed final dividend of 4.70 pence per ordinary share (2017: 4.30 pence) was recommended by the Board on 6 March 2019 and, subject to approval by shareholders, is payable on 29 April 2019 to shareholders on the register at the close of business on 5 April 2019. The aggregate amount of the 2018 final dividend of £19.1 million (2017: £17.5 million) has been calculated using the total number of eligible shares outstanding at 31 December 2018. The total dividend for the year would be 6.90 pence (2017: 6.35 pence) per ordinary share of 2.50 pence comprising £28.1 million (2017: £25.9 million).

27 SHARE PREMIUM

	2018 £m	2017 £m
At 1 January and 31 December	**83.1**	83.1

Notes to the Group financial statements (continued)
31 December 2018

28 OTHER RESERVES

	Capital redemption reserve £m	Cumulative translation reserve £m	Fair value reserve £m	Share-based payment reserve £m	Other reserves £m	Total £m
At 1 January 2018	**22.7**	**64.7**	**27.1**	**0.4**	**28.1**	**143.0**
Exchange rate variances	**–**	**3.9**	**–**	**–**	**–**	**3.9**
Property, plant and equipment						
– net fair value deficits in the year	**–**	**–**	**(0.4)**	**–**	**–**	**(0.4)**
– deferred tax thereon	**–**	**–**	**(0.4)**	**–**	**–**	**(0.4)**
Other financial investments:						
– fair value losses in the year	**–**	**–**	**(7.4)**	**–**	**–**	**(7.4)**
– realised fair value gains	**–**	**–**	**(0.4)**	**–**	**–**	**(0.4)**
– deferred tax thereon	**–**	**–**	**1.0**	**–**	**–**	**1.0**
Reclassify fair value movements on equity investments (note 2.1)	**–**	**–**	**(17.9)**	**–**	**–**	**(17.9)**
Discontinued operations	**–**	**–**	**0.8**	**–**	**–**	**0.8**
Share-based payment charge	**–**	**–**	**–**	**0.8**	**–**	**0.8**
At 31 December 2018	**22.7**	**68.6**	**2.4**	**1.2**	**28.1**	**123.0**

	Capital redemption reserve £m	Cumulative translation reserve £m	Fair value reserve £m	Share-based payment reserve £m	Other reserves £m	Total £m
At 1 January 2017	22.7	57.2	17.9	–	28.1	125.9
Exchange rate variances	–	7.5	–	–	–	7.5
Property, plant and equipment						
– net fair value deficits in the year	–	–	(0.9)	–	–	(0.9)
– deferred tax thereon	–	–	0.1	–	–	0.1
– disposals	–	–	(3.9)	–	–	(3.9)
– deferred tax thereon	–	–	0.5	–	–	0.5
Other financial investments:						
– fair value gains in the year	–	–	13.9	–	–	13.9
– realised fair value gains	–	–	(2.9)	–	–	(2.9)
– released on impairment	–	–	2.0	–	–	2.0
– deferred tax thereon	–	–	(0.1)	–	–	(0.1)
Discontinued operations	–	–	0.5	–	–	0.5
Share-based payment charge	–	–	–	0.4	–	0.4
At 31 December 2017	22.7	64.7	27.1	0.4	28.1	143.0

As a result of adopting IFRS 9 for the first time, previously recognised fair value movements have been transferred from other reserves to retained earnings in line with the disclosure made in the Half-Yearly Financial Report 2018.

The cumulative translation reserve comprises the aggregate effect of translating net assets of overseas subsidiaries into sterling since acquisition.

The fair value reserve comprises the aggregate movement in the value of financial assets classified as fair value through comprehensive income and owner-occupied property since acquisition, net of deferred tax.

The amount classified as other reserves was created prior to listing in 1994 on a Group reconstruction and is considered to be non-distributable.

29 NOTES TO THE CASH FLOW

Cash generated from operations	2018 £m	2017 £m
Operating profit	**165.3**	213.6
Adjustments for:		
Net movements on revaluation of investment properties	**(62.8)**	(94.2)
Net movements on revaluation of equities	**(22.2)**	-
Depreciation and amortisation	**1.0**	0.8
Profit on sale of investment property	**(2.3)**	(43.7)
Gain on sale of other financial instruments, net of impairments	**(1.7)**	(2.5)
Non-cash rental income	**(5.0)**	(3.5)
Share-based payment expense	**0.8**	0.4
Changes in working capital:		
(Increase)/decrease in receivables	**(2.6)**	3.4
Increase/(decrease) in payables	**2.4**	(0.6)
Cash generated from operations	**72.9**	73.7

At 31 December 2018 Changes in liabilities arising from financing activities	Notes	1 January 2018 £m	Financing cash flows £m	Amortisation of loan issue costs £m	Fair value adjustments £m	Foreign exchange £m	31 December 2018 £m
Borrowings	21	871.3	(41.9)	1.8	–	5.7	836.9
Interest rate swaps	22	6.9	–	–	(2.3)	–	4.6
Interest rate caps	22	(0.1)	0.1	–	–	–	–
Forward foreign exchange contracts	22	(0.6)	(0.9)	–	–	2.0	0.5
		877.5	(42.7)	1.8	(2.3)	7.7	842.0

At 31 December 2017 Changes in liabilities arising from financing activities	Notes	1 January 2017 £m	Financing cash flows £m	Amortisation of loan issue costs £m	Fair value adjustments £m	Foreign exchange £m	31 December 2017 £m
Borrowings	21	849.9	(41.9)	1.6	–	15.5	908.9
Interest rate swaps	22	9.8	–	–	(2.9)	–	6.9
Interest rate caps	22	–	(0.1)	–	–	–	(0.1)
Forward foreign exchange contracts	22	(0.5)	(3.7)	–	–	3.6	(0.6)
		859.2	38.1	1.6	(2.9)	19.1	915.1

Notes to the Group financial statements (continued)
31 December 2018

30 CONTINGENCIES
At 31 December 2018 CLS Holdings plc had guaranteed certain liabilities of Group companies. These were primarily in relation to Group borrowings and covered interest and amortisation payments. No cross-guarantees had been given by the Group in relation to the principal amounts of these borrowings.

31 COMMITMENTS
At the balance sheet date the Group had contracted with customers for the following minimum lease payments:

Operating lease commitments – where the Group is lessor	**2018 £m**	2017 £m
Within one year	**104.2**	98.5
More than one but not more than five years	**307.8**	293.7
More than five years	**149.4**	165.4
	561.4	557.6

Operating leases where the Group is the lessor are typically negotiated on a customer-by-customer basis and include break clauses and indexation provisions.

OTHER COMMITMENTS
At 31 December 2018 the Group had contracted capital expenditure of £2.9 million (2017: £9.1 million). At the balance sheet date, the Group had conditionally exchanged contracts to acquire an investment property for £10.0 million (2017: £nil). There were no authorised financial commitments which were yet to be contracted with third parties (2017: nil).

32 SUBSIDIARIES

The group financial statements include the financial statements of CLS Holdings plc and all of its subsidiaries, which are listed below. All are 100% owned unless otherwise stated.

UNITED KINGDOM

Registered Office: 16 Tinworth Street, London SE11 5AL

16 Tinworth Street (Residential) Limited	CLS Horton Road Limited	Great West House Limited	Spring Gardens III Limited
401 King Street Limited	CLS London Limited	GWH Birkenhead Limited	Spring Mews (Block D) Limited
62 London Road Limited	CLS London Properties Limited	Harman House Limited	Spring Mews (Hotel) Limited
Apex Tower Limited	CLS Northern Properties Limited	Hygeia Harrow Limited	Spring Mews (Student) Limited
Birmingham Crescent Limited	CLS One Limited	Ingrove Limited	Spring Mews Limited
Brent House Limited	CLS Peterborough Limited	Instant Office Limited	Three Albert Embankment Limited
Buspace Studios Limited	CLS Residential Investments Limited	Kennington Road Limited	Tweedwind (Three) Limited
Cassini Pascal Limited	CLS South London Limited	Larkhall Lane Limited	Vauxhall Square Limited
Centenary Court Limited	CLS Spring Gardens Limited	Maidenhead Cloud Gate Limited	Vauxhall Square (Nominee 2) Limited
Central London Securities Limited	CLS UK Properties plc	Melita House Limited	Vauxhall Square (Nominee 3) Limited
Chancel House Limited	CLSH Management Limited	Mirenwest Limited	Vauxhall Square One Limited
Citadel Finance Limited	Columbia Bracknell Limited	New Printing House Square Limited	Vauxhall Square (Student) Limited
Citadel Holdings plc	Coventry House Limited	NYK Investments Limited	Vauxhall Square (Wandsworth Road) Limited
CI Tower Investments Limited	Crosspoint House Limited	One Elmfield Park Limited	Wandsworth Road Limited
CLS Bromley Limited	Dukes Road Limited	Quayside Lodge Limited	
CLS Capital Partners Limited	Elmfield Road Limited	Rayman Finance Limited	
CLS Chancery House Limited	Falcon Quest Limited	Reflex Bracknell Limited	
CLS Cliffords Inn Limited	Fetter Lane Apartments Limited	Rex House Limited	
CLS England and Wales Limited	Fetter Lane Leasehold Limited	Sentinel House Limited	
CLS Gateway House Limited		Shard of Glass Limited	
CLS Germany Limited		Southern House Limited	
CLS Holdings UK Limited			

UNITED KINGDOM

Registered Office: 15 Atholl Crescent, Edinburgh EH3 8HA

CLS Aberdeen Limited
CLS Scotland Limited
Ladywell House Limited
Sidlaw House Limited

FRANCE

Registered Office: 120 Rue Jean Jaurés, 92300 Levallious, Paris

120 Jean Jaures Holding Sàrl	De Musset Sàrl	Immobilière 12 Sàrl	Petits Champs Sàrl
120 Jean Jaures Sàrl	EPP Levallois Sàrl	Immobilière 13 Sàrl	Petits Hotels Sàrl
Avenue du Park SCI	Euralille 2 Sàrl Foch SCI	Le D'Aubigny SCI	Rhone Alpes Sàrl
BV France Sàrl	Forum France SCI	Le Quatuor SCI	Rue Stephenson Sàrl
Capitaine Guynemer Sàrl	Georges Clemençeau Sàrl	Le Sigma Sàrl	Scala Sàrl
Chorus Sàrl	Immobilière V SA	Leclerc SCI	SCI Frères Peugeot
CLS France Management Sàrl	Immobilière 6 Sàrl	Mission Marchand Sàrl	SCI Pierre Valette
CLS France Services Sàrl	Immobilière 8 Sàrl	Panten Sàrl	Sego Sàrl
Debussy SCI	Immobilière 10 Sàrl	Parc SCI	Solferino SCI

Notes to the Group financial statements (continued)
31 December 2018

32 SUBSIDIARIES continued

GERMANY
Registered Office: Nagelsweg 37, 20097 Hamburg

CLS Germany Management GmbH
Jarrestrasse Immobilien GmbH

LUXEMBOURG
Registered Office: 55 Avenue de la Gare, L-1611 Luxembourg

Adlershofer Sàrl	CLS Metropolis Sàrl	Grossglockner Sàrl	Ratingen Sàrl
Albertina Sàrl	CLS Palisade Sàrl	Hermalux Sàrl	Rock Harman House Sàrl
Cavernet Sàrl	CLS Tangentis Sàrl	Kapellen Sàrl	Salisbury Hill Sàrl
Chronotron Sàrl	Freepost Sàrl	Landstrasse Sàrl	Seboldstrasse Sàrl
CLS Immobilien Stuttgart Sàrl	Frohbösestrasse Sàrl	Meitnerstrasse Sàrl	Satimood Sàrl
CLS Investments Sàrl	Garivet Sàrl	Naropere Sàrl	Schönbrunn Sàrl
CLS Investments 2 Sàrl	Giesserei Sàrl	Prater Sàrl	Zillertal Sàrl
CLS Luxembourg Sàrl	Gotic Haus Sàrl	Network Perlach Sàrl	

NETHERLANDS
Registered Office: Burgemeester van Reenensingel 101, 2803 DA Gouda

120 Jean Jaures BV	Hamersley International BV	Portapert Properties UK BV
Capitaine Guynemer BV	Malmros Property BV	Rasstaf BV
Chorus BV	Parc Avenue du Park BV	Stockport Investments BV
CLS Management BV	Petits Champs BV	
Forum d'Aubigny BV	Portapert Properties III BV	

JERSEY
Registered Office: PO Box 167, 3rd Floor, 2 Hill Street, St Helier JE4 8RY

Hawkswell Limited

SWEDEN
Registered Office: Skönabäck 122, SE-274 91 Skurup

Jarrestrasse Holding AB	Rasstaf Sweden AB	Wyatt Sales AB
Museion Förvaltning AB	Wyatt Media Group AB (98.87%)	Xtraworks AB
Endicott Sweden AB		

First Camp Sverige Holding AB (58.02%)
100% subsidiaries of First Camp Sverige Holding AB (unless otherwise stated):

Brf Gunnarsö (83.45%)	First Camp Ahus och Oknö AB	First Camp Kungshamn AB	First Camp Tylösand AB
Brf Kolmården	First Camp Bråviken AB	First Camp Luleå AB	First Camp Umeå AB
Brf Möllen Brf Solcamp	First Camp Gunnarsö AB	First Camp Malmö AB	First Camp Upplands-Bro AB
Brf Solgläntan (96.7%)	First Camp Holding Karradal AB	First Camp Mölle AB	Solvik Camping och Stugby AB
Brf Umeå Stugor	First Camp Karlstad AB	First Camp Sverige AB	Stugbyn Gunnarsö AB
Brf Wermelandia Stugor	First Camp Kärradal AB	First Camp Torekov AB	Svalans Stugförmedling AB

33 ASSOCIATES

The Group financial statements include the Group's share of the results and net assets of the following associates:

Name	Country of incorporation	Holding
Nyheter 24 Media Network AB	Sweden	24.2%
Lociloci AB	Sweden	24.6%

34 RELATED PARTY TRANSACTIONS

TRANSACTIONS WITH DIRECTORS

Distributions totalling £15,866,671 (2017: £14,385,247) were made through dividend payments in the year in respect of ordinary shares held by the Directors.

During the year the following transactions occurred with companies associated to Sten Mortstedt:

- a Group company, Museion Forvaltning AB, signed an agreement with Skonaback Forvaltnings AB to lease office space until 30 September 2018 at a cost of SEK 400,000 per annum. The lease was extended until 31 December 2018 at a cost of SEK 120,000 per annum. The total cost for the year was SEK 330,000 (2017: SEK 400,000). No balances were outstanding at the balance sheet date (2017: SEK nil).
- the Group charged a management fee in relation to providing property management and administration services. A Group company, CLSH Management Limited, invoiced fees totalling £21,457 (2017: £101,573). At the balance sheet date £21,457 was outstanding (2017: £635).
- the Group recharged salary costs in relation to providing administration services. A Group company, CLS Holdings plc, invoiced costs totalling £68,673 (2017: £37,634). At the balance sheet date £31,036 was outstanding (2017: £16,650).
- the Group provided periodic use of a company-owned flat. A Group company, CLSH Management limited, invoiced costs totalling £200 (2017: £3,730). No balances were outstanding at the balance sheet date (2017: £590).
- the Group were charged amounts in relation to administration costs. A Group company, CLS Holdings plc, received invoices totalling £4,566 (2017: £2,985). No balances were outstanding at the balance sheet date (2017: £nil).

During the year, the Group recharged costs to a company with a common Director, Catena AB, in relation to costs incurred by the Group. A Group company, CLS Holdings plc, invoiced costs totalling £4,447 (2017: £3,202). At the balance sheet date £1,118 was outstanding (2017: £1,311).

DIRECTORS' REMUNERATION

The remuneration of the Directors, who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures. Information about the remuneration of individual directors is provided in the audited part of the Remuneration Committee Report on pages 61 to 74.

	2018 £000	2017 £000
Short-term employee benefits	**2,430**	2,634
Post-employment benefits	**7**	11
Other long-term benefits	**610**	306
	3,047	2,951

Company balance sheet
at 31 December 2018

	Notes	2018 £m	2017 £m
Non-current assets			
Investment in subsidiary undertakings	6	**461.1**	361.1
Intangible assets		**0.3**	0.1
Current assets			
Trade and other receivables	7	**2.4**	4.2
Total assets		**463.8**	365.4
Current liabilities			
Trade and other payables	8	**(171.3)**	(24.8)
Non-current liabilities			
Borrowings	9	**–**	(64.8)
Total liabilities		**(171.3)**	(89.6)
Net assets		**292.5**	275.8
Equity			
Share capital	10	**11.0**	11.0
Share premium	11	**83.1**	83.1
Other reserves	12	**28.1**	27.7
Profit and loss account	12	**170.3**	154.0
Shareholders' funds		**292.5**	275.8

The Company reported a profit for the financial year ended 31 December 2018 of £42.8 million (2017: £44.2 million).

The notes on pages 128 to 131 are an integral part of these financial statements.

These financial statements of CLS Holdings plc (registered number: 2714781) were approved by the Board of Directors and authorised for issue on 7 March 2019 and were signed on its behalf by:

Mr E H Klotz
Executive Chairman

Company statement of changes in equity
for the year ended 31 December 2018

	Notes	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m
Arising in 2018:						
Profit for the year	12	**–**	**–**	**–**	**42.8**	**42.8**
Employee Performance Incentive Plan charge	12	**–**	**–**	**0.4**	**–**	**0.4**
Dividends	12	**–**	**–**	**–**	**(26.5)**	**(26.5)**
Total changes arising in 2018		**–**	**–**	**0.4**	**16.3**	**16.7**
At 1 January 2018		**11.0**	**83.1**	**27.7**	**154.0**	**275.8**
At 31 December 2018		**11.0**	**83.1**	**28.1**	**170.3**	**292.5**

	Notes	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m
Arising in 2017:						
Profit for the year	12	–	–	–	44.2	44.2
Employee Performance Incentive Plan charge	12	–	–	0.4	–	0.4
Dividends	12	–	–	–	(24.7)	(24.7)
Total changes arising in 2017		–	–	0.4	19.5	19.9
At 1 January 2017		11.0	83.1	27.3	134.5	255.9
At 31 December 2017		11.0	83.1	27.7	154.0	275.8

The notes on pages 128 to 131 are an integral part of these financial statements.

Notes to the Company financial statements
31 December 2018

1 GENERAL INFORMATION
These separate financial statements are presented as required by the Companies Act 2006 and prepared on the historical cost basis.

The Company has applied UK GAAP Financial Reporting Standard 101 'Reduced Disclosure Framework' ("FRS 101") incorporating the Amendments to FRS 101 issued by the FRC in July 2015 other than those relating to legal changes and has not applied the amendments to Company law made by The Companies, Partnerships and Groups (Accounts and Reports) Regulations 2015 that are effective for accounting periods beginning on or after 1 January 2016.

CLS Holdings plc is the ultimate parent company of the CLS Holdings Group. Its primary activity (which occurs exclusively within the United Kingdom) is to hold shares in subsidiary companies.

2 BASIS OF ACCOUNTING
As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to capital management, presentation of a cash flow statement, presentation of comparative information in respect of certain assets, standards not yet effective, impairment of assets and related party transactions.

Where required, equivalent disclosures are given in the Group financial statements.

3 SIGNIFICANT ACCOUNTING POLICIES
The principal accounting policies are summarised below.

3.1 GOING CONCERN
The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly they continue to adopt the going concern basis in preparing the Annual Report and Accounts as detailed in the Director's Report on page 77.

3.2 INVESTMENTS IN SUBSIDIARIES
Investments in subsidiaries are accounted for at cost less, where appropriate, provisions for impairment. Dividend income is recognised when received.

3.3 PENSION COSTS
The Company operates a defined contribution pension scheme for all eligible employees. The pension costs charged represent the contributions payable. Differences between contributions payable in the year and contributions paid are shown as either accruals or prepayments in the balance sheet.

3.4 SHARE CAPITAL
Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from proceeds, net of tax.

Where a Group company purchases the Company's equity share capital, the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the owners of the Company until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the owners of the Company.

3.5 FOREIGN CURRENCIES
The financial statements are presented in sterling, which is the currency of the primary economic environment in which the Company operates, known as its functional currency. Transactions in currencies other than the Company's functional currency are recognised at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in other currencies are translated into sterling at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in other currencies are translated into sterling at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured at historical cost in a foreign currency are not translated.

4 PROFIT FOR FINANCIAL YEAR

As permitted by s408 Companies Act 2006, the Company's profit and loss account has not been presented in these financial statements. The Company's profit for the financial year was £42.8 million (2017: £44.2 million).

Audit fees for the Company were £0.1 million (2017: £0.1 million).

Details of the Directors employed during the year and of their remuneration is included in the Remuneration Committee Report on pages 61 to 74.

5 DISTRIBUTIONS TO SHAREHOLDERS

An interim dividend for 2018 of 2.20 pence (2017: 2.05 pence) per ordinary share of 2.50 pence, or £9.0 million (2017: £8.4 million), was paid on 28 September 2018. The proposed final dividend of 4.70 pence per ordinary share (2017: 4.30 pence) was recommended by the Board on 6 March 2019 and, subject to approval by shareholders, is payable on 29 April 2019 to shareholders on the register at the close of business on 5 April 2019. The aggregate amount of the 2018 final dividend of £19.1 million (2017: £17.5 million) has been calculated using the total number of eligible shares outstanding at 31 December 2018. The total dividend for the year would be 6.90 pence (2017: 6.35 pence) per ordinary share of 2.50 pence comprising £28.1 million (2017: £25.9 million).

6 INVESTMENT IN SUBSIDIARY UNDERTAKINGS

	2018 £m	2017 £m
At 1 January	**361.1**	354.5
Additions	**99.0**	11.5
Disposals	**–**	(10.3)
Reversal of impairment	**1.0**	5.4
At 31 December	**461.1**	361.1

7 TRADE AND OTHER RECEIVABLES

	2018 £m	2017 £m
Current		
Amounts owed by subsidiary undertakings	**0.1**	2.8
Prepayments and accrued income	**0.3**	0.2
Other debtors	**2.0**	1.2
	2.4	4.2

8 TRADE AND OTHER PAYABLES

	2018 £m	2017 £m
Current		
Trade payables	**0.1**	–
Amounts owed to subsidiary undertakings	**169.4**	20.4
Accruals	**1.8**	4.4
	171.3	24.8

Notes to the Company financial statements continued
31 December 2018

9 BORROWINGS

	2018 £m	2017 £m
Unsecured bonds	–	65.0
Arrangement fees	–	(0.2)
	–	64.8

The £65.0 million unsecured retail bonds, which attracted a fixed rate coupon of 5.5% and were due for repayment in 2019, were redeemed in full in July 2018. The bonds had been listed on the London Stock Exchange's Order book for Retail Bonds.

10 SHARE CAPITAL

	Number					
	Ordinary shares in circulation	**Treasury shares**	**Total ordinary shares**	**Ordinary shares in circulation £m**	**Treasury shares £m**	**Total ordinary shares £m**
At 1 January 2018 and 31 December 2018	**407,395,760**	**31,382,020**	**438,777,780**	**10.2**	**0.8**	**11.0**

	Number					
	Ordinary shares in circulation	Treasury shares	Total ordinary shares	Ordinary shares in circulation £m	Treasury shares £m	Total ordinary shares £m
At 1 January 2017	40,739,576	3,138,202	43,877,778	10.2	0.8	11.0
Issued on subdivision	366,656,184	28,243,818	394,900,002	–	–	–
At 31 December 2017	407,395,760	31,382,020	438,777,780	10.2	0.8	11.0

On 8 May 2017, each of the existing ordinary shares of 25 pence each was subdivided into ten new ordinary shares of 2.5 pence each.

11 SHARE PREMIUM

	2018 £m	2017 £m
At 1 January and 31 December	**83.1**	83.1

12 PROFIT AND LOSS ACCOUNT AND OTHER RESERVES

	Other reserves				
	Capital redemption reserve £m	**Share-based payment reserve £m**	**Other £m**	**Total £m**	**Profit and loss account £m**
At 1 January 2018	**22.7**	**0.4**	**4.6**	**27.7**	**154.0**
Share-based payment charge	**–**	**0.4**	**-**	**0.4**	**–**
Profit for the year	**–**	**–**	**–**	**–**	**42.8**
Dividends to shareholders	**–**	**–**	**–**	**–**	**(26.5)**
At 31 December 2018	**22.7**	**0.8**	**4.6**	**28.1**	**170.3**

	Other reserves				
	Capital redemption reserve £m	Share-based payment reserve £m	Other £m	Total £m	Profit and loss account £m
At 1 January 2017	22.7	–	4.6	27.3	134.5
Share-based payment charge	–	0.4	–	0.4	–
Profit for the year	–	–	–	–	44.2
Dividends to shareholders	–	–	–	–	(24.7)
At 31 December 2017	22.7	0.4	4.6	27.7	154.0

13 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2018 £m	2017 £m
At 1 January	**275.8**	255.9
Profit for the year	**42.8**	44.2
Dividends to shareholders	**(26.5)**	(24.7)
Share-based payment charge	**0.4**	0.4
At 31 December	**292.5**	275.8

14 CONTINGENCIES

At 31 December 2018 CLS Holdings plc had guaranteed certain liabilities of Group companies, primarily in relation to Group borrowings and covering interest and amortisation payments. No cross-guarantees had been given in relation to the principal amounts of these borrowings. Since the possibility of payment by the Company under any of these guarantees and warranties is considered remote, no provisions in relation to these have been made in the Company's financial statements and no reportable contingent liability exists.

15 COMMITMENTS

At 31 December 2018, the Company had no contracted capital expenditure (2017: £nil) and no authorised financial commitments which were yet to be contracted with third parties (2017: £nil).

Five year financial summary (unaudited)
31 December 2018

	2018 £m	Restated 2017 £m	2016 £m	2015 £m	2014 £m
Continuing Operations					
Group revenue	**133.0**	120.3	128.5	118.9	99.6
Net rental income	**107.3**	100.0	107.1	99.0	82.2
Administration expenses	**(17.8)**	(14.6)	(21.3)	(19.5)	(13.6)
Other expenses	**(13.2)**	(12.2)	(14.0)	(13.8)	(4.9)
Group revenue less costs	**76.3**	73.2	71.8	65.7	63.7
Net movements on revaluation of investment properties	**62.8**	94.2	36.1	98.0	186.0
Net movement on revaluation of equity investments	**22.2**	–	–	–	–
Profit on sale of properties	**2.3**	43.7	9.1	4.3	8.7
Gain on sale of other financial instruments, net of impairments	**1.7**	2.5	3.2	0.7	–
Gain arising from acquisition	–	–	–	–	1.2
Fair value gain on reclassification of associate	–	–	–	–	0.2
Operating profit	**165.3**	213.6	120.2	168.7	259.8
Finance income	**6.1**	10.0	13.6	10.0	7.7
Finance costs	**(26.5)**	(32.4)	(32.7)	(27.5)	(28.1)
Share of loss of associates after tax	–	(0.7)	(1.0)	–	(2.6)
Profit before tax	**144.9**	190.5	100.1	151.2	236.8
Taxation	**(12.1)**	(33.5)	(1.8)	(19.1)	(42.0)
Profit for the year from continuing operations	**132.8**	157.0	98.3	132.1	194.8
Discontinued Operations					
(Loss)/profit for the year from discontinued operations	**(14.9)**	0.9	–	–	–
Profit for the year	**117.9**	157.9	98.3	132.1	194.8
Distributions paid and proposed	**28.1**	25.9	23.5	19.1	15.9
Net Assets Employed					
Non-current assets	**2,034.5**	1,913.1	1,763.9	1,572.6	1,477.8
Current assets	**173.0**	174.7	159.4	173.3	111.0
	2,207.5	2,157.4	1,923.3	1,745.9	1,588.8
Current liabilities	**(170.0)**	(177.5)	(186.2)	(282.2)	(269.6)
Non-current liabilities	**(914.5)**	(946.6)	(854.6)	(695.7)	(661.7)
Net assets	**1,123.0**	1,033.3	882.5	768.0	657.5

Ratios	**2018**	2017	2016	2015	2014
Net assets per share (pence)	**275.5**	252.0	215.1	181.0	152.1
EPRA net assets per share (pence)	**309.8**	285.6	245.6	208.3	177.4
Earnings per share (pence)	**30.5**	38.7	23.6	30.6	44.9
EPRA earnings per share (pence)	**13.1**	12.6	12.3	8.5	7.7
Net gearing (%)	**63.4**	65.2	78.8	82.0	89.4
Balance sheet loan-to-value (%)	**36.7**	36.9	43.7	42.6	44.3
Interest cover (times)	**3.80**	3.89	3.37	3.19	3.34

2017 has been restated to separate the individual line items in the profit and loss account that relate to the operations of First Camp Svergie Holdings AB which have been classified as discontinued, as disclosed in note 24 to the financial statements. Accordingly, the assets and liabilities are disclosed in current assets and current liabilities on the Group balance sheet as the First Camp sub-group has been classified as a disposal group held for sale. The 2014-2016 comparative periods have not been restated to reflect this reclassification.

Glossary of terms

ADMINISTRATION COST RATIO
Recurring administration expenses of the Investment Property operating segment expressed as a percentage of net rental income

BALANCE SHEET LOAN-TO-VALUE
Net debt expressed as a percentage of property assets

CONTRACTED RENT
Annual contracted rental income after any rent-free periods have expired

DILUTED EARNINGS PER SHARE
Profit for the year attributable to the owners of the Company divided by the diluted weighted average number of ordinary shares

DILUTED NUMBER OF ORDINARY SHARES
Number of ordinary shares in circulation at the balance sheet date adjusted to include the effect of potential dilutive shares issuable under employee share schemes

DILUTED WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES
Weighted average number of ordinary shares in issue during the period adjusted to include the effect of potential weighted average dilutive shares issuable under employee share schemes

EARNINGS PER SHARE
Profit for the year attributable to the owners of the Company divided by the weighted average number of ordinary shares in issue in the period

EPRA
European Public Real Estate Association

EPRA EARNINGS PER SHARE
Profit for the year attributable to the owners of the Company, but excluding net gains or losses from fair value adjustments on investment properties and on equity investments, profits or losses on disposal of investment properties and other non-current investment interests, profits or losses of discontinued operations, profits or losses on early redemption of debt, impairment of goodwill and intangible assets, movements in fair value of derivative financial instruments and their related current and deferred tax

EPRA NET ASSETS
Net assets attributable to the owners of the Company excluding the fair value of financial derivatives, deferred tax on revaluations, and goodwill arising as a result of deferred tax

EPRA NET ASSETS PER SHARE OR EPRA NAV
EPRA net assets divided by the diluted number of ordinary shares

EPRA NET INITIAL YIELD
Passing rent less net service charge costs on investment properties and properties held for sale, expressed as a percentage of the valuation of those properties after adding purchasers' costs

EPRA TOPPED UP NET INITIAL YIELD
Contracted rent less net service charge costs on investment properties and properties held for sale, expressed as a percentage of the valuation of those properties after adding purchasers' costs

EPRA TRIPLE NET ASSETS
EPRA net assets adjusted to reflect the fair value of debt and derivatives and to include the fair value of deferred tax on property revaluations

EPRA TRIPLE NET ASSETS PER SHARE
EPRA triple net assets divided by the diluted number of ordinary shares

ESTIMATED RENTAL VALUE (ERV)
The market rental value of lettable space as estimated by the Group's valuers

INTEREST COVER
The aggregate of group revenue less costs, divided by the aggregate of interest expense and amortisation of loan issue costs, less interest income

LIQUID RESOURCES
Cash and short-term deposits and listed corporate bonds

NET ASSETS PER SHARE OR NET ASSET VALUE (NAV)
Equity attributable to the owners of the Company divided by the diluted number of ordinary shares

Glossary of terms continued

NET DEBT
Total borrowings less liquid resources

NET GEARING
Net debt expressed as a percentage of net assets attributable to the owners of the Company

NET INITIAL YIELD
Net rent on investment properties and properties held for sale expressed as a percentage of the valuation of those properties

NET RENT
Passing rent less net service charge costs

OCCUPANCY RATE
Contracted rent expressed as a percentage of the aggregate of contracted rent and the ERV of vacant space

OVER-RENTED
The amount by which ERV falls short of the aggregate of contracted rent

PASSING RENT
Contracted rent before any rent-free periods have expired

PROPERTY LOAN TO VALUE
Property borrowings expressed as a percentage of the market value of the property portfolio

RENT ROLL
Contracted rent

RETURN ON EQUITY
The aggregate of the change in equity attributable to the owners of the Company plus the amounts paid to the shareholders dividends and the purchase of shares in the market, divided by the opening equity attributable to the owners of the Company

REVERSIONARY
The amount by which ERV exceeds contracted rent

TOTAL ACCOUNTING RETURN
The change in EPRA NAV before the payment of dividends

TOTAL SHAREHOLDER RETURN
The growth in capital from purchasing a share, assuming that dividends are reinvested every time they are received

TRUE EQUIVALENT YIELD
The capitalisation rate applied to future cash flows to calculate the gross property value, as determined by the Group's external valuers

Directors, officers and advisers

DIRECTORS

Henry Klotz	(Executive Chairman)
Anna Seeley◊	(Non-Executive Vice Chairman)
Fredrik Widlund	(Chief Executive Officer)
John Whiteley	(Chief Financial Officer)
Sten Mortstedt◊	(Executive Director)
Malcolm Cooper‡*†	(Non-Executive Director)
Elizabeth Edwards†◊	(Non-Executive Director)
Christopher Jarvis*†	(Non-Executive Director)
Bengt Mortstedt	(Non-Executive Director)
Lennart Sten*◊	(Non-Executive Director)

‡ Senior Independent Director
* Member of Remuneration Committee
† Member of Audit Committee
◊ Member of Nomination Committee

COMPANY SECRETARY
David Fuller BA, FCIS

REGISTERED OFFICE
16 Tinworth Street, London, SE11 5AL

REGISTERED NUMBER
2714781

REGISTRARS AND TRANSFER OFFICE
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